(21,343)

SUPREME COURT OF THE UNITED STATES.

OCTOBER TERM, 1909.

No. 259.

DR. MILES MEDICAL COMPANY, PETITIONER,

vs.

JOHN D. PARK & SONS COMPANY.

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE SIXTH CIRCUIT.

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JUDD & DETWEILER (INC.), PRINTERS, WASHINGTON, D. C., FEBRUARY 2, 1910.

a No. 1797.

United States Circuit Court of Appeals, Sixth Circuit.

DR. MILES MEDICAL COMPANY, Appellant,
vs.
JOHN D. PARK & SONS COMPANY, Appellee.

Appeal from the Circuit Court of the United States for the Eastern District of Kentucky.

Record.

Original Transcript Filed February 29, 1908.

1 *Transcript of Record.*

Proceedings Had in the Circuit Court of the United States for the Sixth Judicial Circuit and Eastern District of Kentucky, at a Regular Term Begun and Held in the Federal Court Hall, in the City of Covington, Kentucky, on Monday, October 21st, A. D. 1907, and of the Independence of the United States of America the 132nd year.

Court met.

Present: Honorable A. M. J. Cochran, Judge.

DR. MILES MEDICAL COMPANY, a Corporation, Complainant,
vs.
JOHN D. PARK & SONS COMPANY, Defendant.

Be it remembered that heretofore, to-wit, on November 6th, A. D., 1907, a bill of complaint was filed herein, same being in words and figures as follows, viz:

Circuit Court of the United States for the Eastern District of Kentucky.

To the Honorable Judges of said court, in chancery sitting:

The Dr. Miles Medical Company, a corporation duly organized and existing under and by virtue of the laws of the State of Indiana and a citizen of the State of Indiana, complainant, brings this bill of complaint, against John D. Park & Sons Company, a corporation duly organized and existing under and by virtue of the laws of the State of Kentucky, a citizen of the State of Kentucky, and a resident and inhabitant of the Eastern District of Kentucky, defendant, and thereupon your orator complains and states:

I.

That your orator is a corporation duly organized and existing under and by virtue of the laws of the State of Indiana and is a citizen of said State of Indiana, and by its charter authorized and empowered to manufacture, sell and deal in medicines, remedies and cures, and to acquire, hold, use and employ all necessary trade methods, trade secrets, formulas, processes, trade rights, trade marks, real and personal property, and articles and rights necessary, proper and incident to such manufacture, sale and business. That
2 your orator was organized as a corporation in the year A. D. 1885, and since said date has been engaged, under and pursuant to its charter powers and franchises, in the manufacture, exploitation and sale of various medicines, preparations and cures, with its laboratory, factory and principal place of business in the City of Elkhart, Elkhart County, Indiana, where its medicines, remedies and cures are and have been manufactured, prepared, put up, sold and shipped in bottles, cartons, packages and receptacles as hereinafter more fully stated, and that said defendant, John D. Park & Son Company, is a corporation organized under the laws of the State of Kentucky for the purpose of, and now engaged in buying, selling and dealing in drugs, medicines, remedies and cures at wholesale and is a citizen of the State of Kentucky, and a resident and inhabitant of the Eastern District of Kentucky. The principal business place of defendant is in the City of Cincinnati, County of Hamilton, and State of Ohio, where it is engaged in operating a wholesale drug store, where it keeps and has kept for sale and offers for sale and sells, among other articles, various proprietary preparations, remedies, medicines and cures, including the medicines, cures and remedies of your orator, hereinafter more fully mentioned and described.

II.

Your orator further shows that heretofore, at various times both before and since the organization of your orator, Dr. Franklin Miles, a resident of the City of Elkhart, Elkhart County, Indiana, and a citizen of the State of Indiana, after many years of preparation, investigation and research, and after courses of study in a number of medical colleges and institutions, including the medical department of Columbia College, New York City, the Medical School of Michigan University, Rush Medical College of Chicago, the Chicago Medical College, and the Illinois State Eye and Ear Infirmary, and after many years of extended experience in the practice of medicine, and after long courses of special investigation and experiments, discovered, devised, invented and compounded at various times certain new, useful and valuable medicines, remedies and cures theretofore unknown and undiscovered, and for a valuable consideration paid by your orator to and received by the said Dr. Franklin Miles, said Dr. Franklin Miles has kept and preserved said discoveries, medicines, remedies and cures, and the methods, processes, formulas, recipes, principal ingredients and proportions and methods thereof in each instance as trade secrets and has from time to time assigned,

transferred and sold to your orator the said methods and
3 processes, formulas and recipes for preparing, compounding and manufacturing the aforesaid medicines, remedies and cures so discovered, devised, invented, prepared and compounded by him as aforesaid, together with the sole and exclusive right to use and employ said methods, processes, formulas and recipes, and to manufacture, prepare and sell the aforesaid remedies and medicines and cures prepared under and in accordance therewith. That said Dr. Franklin Miles and your orator and the officers and employés of your orator have always kept and preserved the said processes, methods, formulas, recipes, principal ingredients and manner of preparation, compounding and putting up said medicines, remedies and cures secret and undisclosed, and have not divulged or disclosed the same to the public or other persons, and the said methods, processes, recipes, formulas, principal ingredients and manner of manufacturing, compounding and preparing said remedies, medicines and cures have always been and are now trade and business secrets unknown to and undiscovered by the public, or to any person except the said Dr. Franklin Miles and the officers and employés of your orator, to whom the same have been divulged and disclosed in confidence and trust as trade and business secrets and with the express understanding and agreement that the same are not to be disclosed, divulged or communicated to or used or employed, by any person or other employé other than the officers and employés of your orator for the use and benefit of your orator. The said remedies, medicines and cures so invented, discovered, compounded and prepared and so preserved as trade and business secrets are each and all meritorious, useful and valuable, and are now and always have at all times during the manufacture, sale, marketing and use thereof been and continued to be secret and unknown articles and medicines whose principal ingredients and formulas, and the processes, methods and recipes for manufacture and compounding are known only to said Dr. Franklin Miles and the officers and employés of your orator, and to no other person. Upon and after the purchase and acquisition of the said processes, methods, formulas, recipes and manner of manufacturing, preparing and compounding said remedies, medicines and cures from the said Dr. Franklin Miles by your orator, as aforesaid, your orator, as the sole and exclusive owner thereof, and the possessor of the sole and exclusive right to manufacture, compound, prepare and sell the same, proceeded to and has since solely and exclusively manufactured, compounded, prepared, put up and
sold the said medicines, remedies and cures under and in
4 accordance with said secret recipes, methods, processes and formulas, and has identified, designated and preserved each medicine as the sole and exclusive manufacture and product of your orator by original, distinctive and peculiar packages, bottles, boxes, cartons, labels, trade names and a trade mark, and has particularly identified the origin and manufacture thereof by various fancy names, in all of which the name "Dr. Miles" is used and employed in a conspicuous manner and by a certain fancy trade mark symbol or device consisting of a double reverse profile of the human head showing on one side the brain and nerve system, and which said pack-

ages, bottles, boxes, cartons, labels, trade names and trade mark have been extensively used and employed in the manufacture, exploitation, advertisement and sale of said remedies, medicines and cures, and are now well known to the public and are relied upon by the public as a means of identification and as indicating the manufacture and origin of said medicines, remedies and cures, and the said medicines, remedies and cures themselves, and said packages, boxes, cartons, labels, trade names and trade mark thereon by reason of the extensive and widespread sale of said remedies, medicines and cures of your orator have long been and are now valuable advertising mediums to the public of your orator's said medicines, remedies and cures. Said medicines, remedies and cures were at first two or three in number, but from time to time have been added to and increased, as the result of the experiments, investigations and practice of said Dr. Franklin Miles, until at present the same consist of the following: "Dr. Miles' Restorative Nervine;" "Dr. Miles' New Heart Cure;" "Dr. Miles' Wine of Sarsaparilla;" "Dr. Miles' Restorative Tonic;" "Dr. Miles' Restorative Blood Purifier;" "Dr. Miles' Restorative Nerve and Liver Pills;" "Dr. Miles' Anti-Pain Pills;" "Dr. Miles' Laxative Cold Cure;" and "Dr. Miles' Restorative Nerve Plasters;" which said remedies, medicines and cures are intended to be and are a consistent and comprehensive system of remedies and medicines, and are advertised and known as "Dr. Miles Restorative Remedies" and "Dr. Miles' System of Remedies," each of said remedies being intended, adapted and indicated as a specific for certain kindred ills and diseases. Said Dr. Franklin Miles is now and always has been connected with and associated with your orator as president thereof, and has always had and exercised general care, oversight and supervision over the preparation, compounding, manufacture and sale of the aforesaid medicines, remedies and cures by your orator, and such medicines have been since the discovery thereof, respectively,
5 manufactured and compounded, and prepared and put up secretly in said boxes, packages, bottles, cartons exhibiting said labels, trade names and trade mark at your orator's said laboratory and manufactory in the City of Elkhart, Indiana. Upon and since the Act of June 30, 1906, of the Congress of the United States, known as "The Food and Drugs Act of June 30, 1906," your orator has in all respects complied and conformed to each and all of the requirements and provisions of said Act applicable to the said medicines, remedies and cures and the labels and cartons thereof and has filed in the Department of Agriculture a general guaranty covering all of your orator's said products, and has been assigned by said department a serial number, which said serial number and notice of said general guaranty have been placed by your orator upon the principal labels of each and all of its said products so that as a matter of fact each article is accompanied by your orator's guaranty of compliance with the "Food and Drugs Act of June 30, 1906." Your orator is, therefore, the sole and exclusive owner of and possessed of the sole and exclusive right to manufacture, prepare, put up, compound, advertise, exploit, make, sell and dispose of each and all of the aforesaid preparations and remedies in the aforesaid bottles, boxes, packages, cartons, labels under said trade names and trade

mark, and no other person, firm or corporation has any interest therein or right thereto to make or prepare said medicines, remedies and cures, or any thereof, or use or employ said boxes, packages, bottles, cartons, labels, trade names or trade mark upon or in connection with similar products except and unless the same are the genuine preparations of your orator.

III.

Your orator further shows unto your Honors that since the inauguration of the manufacture, compounding, preparation and sale of said remedies, medicines and cures by your orator as aforesaid, your orator has at its sole expense and cost, systematically, thoroughly and extensively exploited and advertised the same throughout the United States as proprietary medicines, remedies and cures made under secret processes, methods, formulas and recipes and of ingredients and under methods of compounding and manufacture unknown to the public and solely and exclusively by your orator. That the said advertisement and exploitation has consisted of extensive newspaper advertising, the publication and distribution of pamphlets, circulars, commendatory letters and testimonials, almanacs, street car signs and wall advertising. Said advertisements have, to a considerable extent, included pictures or reproductions of the various cartons, bottles, receptacles and the letter press, labels,
6 names and devices thereon in which the said remedies of your orator have been offered for sale and sold, so that the public has become thoroughly familiar with the general appearance and dress thereof, and the letter press, names and devices thereon, and is enabled thereby, and does as a matter of fact, by said distinctive appearance and dress, and said letter press, names and devices identify and designate said medicines, remedies and cures of your orator; that the sales of said medicines, remedies and cures in said packages, boxes and cartons bearing said letter press, names and devices, and use thereof by consumers from said packages, boxes and cartons with the letter press, names and trade mark thereon unobscured, unobliterated and legible, has always been and now is a valuable method of advertising, exploiting and introducing said medicines, remedies and cures. That since the inauguration of said business your orator has expended more than two million dollars in said advertisement, exploitation and introduction of said medicines, remedies and cures, and now expends upwards of two hundred thousand dollars annually therefor. That in all such advertisements the said remedies have been and are referred to as "Dr. Miles" remedies under the peculiar, distinctive and fancy names selected respectively therefor, and the prices at which the same are intended to be and are sold at retail in each instance mentioned and set forth in such advertisements, and said retail prices are and always have been plainly and distinctly marked, printed or stamped upon each package of said remedies, medicines and cures, and that in such advertisements, buyers for consumption and the public generally are directed to purchase and apply for the purchase of said remedies, medicines and cures of your orator at retail drug stores, where said medi-

cines, remedies and cures of your orator have been and are kept for sale and on request or demand supplied and sold to consumers, with all the letter press, trade names, trade mark and prices on said cartons and labels legible, unmutilated, unobliterated and unobscured and as prepared and arranged by your orator. As the result of the meritorious character and the superior and uniform manufacture, preparation and compounding of said remedies, medicines and cures, your orator has established a large and lucrative trade therein and demand therefor through, in and at retail drug stores and establishments which exceeds in volume the sum of five hundred thousand dollars annually, and which embraces the entire territory of the United States and exists in a smaller degree in such foreign countries as Canada, Australia, New Zealand and the East and West
7 Indies. That in each instance as each medicine was placed upon the market, the retail price thereof to the consumer was by your orator fixed at a reasonable sum, and from the commencement of said manufacture, exploitation, advertising and sale of said remedies, medicines and cures your orator has, in each instance, continued and maintained the aforesaid system of preparation, putting up, advertisement, introduction and sale at the same reasonable retail prices, and it has been and is the uniform custom of your orator, well known to the public and buyers for use, not to sell or supply said proprietary medicines, remedies and cures directly to consumers or buyers for use, but to sell said medicines, remedies, and cures to jobbers and wholesale druggists, who in turn sell and dispose of the same to retail druggists for sale and distribution to the ultimate purchaser or consumer, invariably in said peculiar, distinctive, original and characteristic style and dress of packages and carton with the letter press, names, prices and trade marks thereon unmutilated, unbroken and legible, and thereby and by and through the system of advertising employed by your orator, the public and purchasers uniformly and generally understand and know that said proprietary remedies, medicines and cures of your orator are for sale to consumers and users at retail drug stores and establishments only and also associate the said peculiar and original style and dress of package and cartons and the letter press, names, lists of ailments and trade mark thereon with the proprietary medicines, remedies, and cures of your orator, and identify them both by the name "Dr. Miles" and "Miles," and by said peculiar distinctive and original style, dress and general appearance of packages, wrappers and receptacles thereof, and the letter press, names and trade mark thereon, and that your orator has a valuable, extensive and exclusive goodwill and property right, both general and in retail drug stores and establishments in said reputation and trade in said proprietary medicines, remedies and cures and the peculiar, distinctive and original style and dress of packages and cartons and the letter press, names and trade mark thereon, and that said good will, demand, trade and reputation have been entirely created, established and maintained by your orator and at the expense and cost of your orator, and that as a matter of fact the advertisements, exploitation, reputation and merits of said proprietary medicines, remedies and cures

have produced and created and now continue and maintain the demand and market therefor in retail stores and induce customers and buyers to resort to retail stores to purchase the same. That as
8 each of said proprietary medicines, remedies and cures has been placed upon the market by your orator, the retail price was fixed at which the same should be sold to the consumer, and in no instance has said retail price in any way been altered or changed from the price originally fixed. Said retail price has always been advertised and announced to the purchasing public by insertion of the same in the advertisements and on packages and cartons as stated. Your orator has also, in each instance, fixed at the outset of each proprietary medicine, remedy and cure being placed upon the market by your orator, the price thereof from your orator to the jobbers and wholesale dealers, and said price so established has been uniformly maintained and kept up without discrimination or distinction, and when any change in wholesale prices was made it extended to all wholesale dealers and affected all alike. Said jobbers and wholesale dealers have also been required to, and, as a general rule, have offered for sale, sold and disposed of said medicines, remedies and cures of your orator to retailers at fixed and uniform rates. As the result of the methods and system aforesaid, your orator's said remedies, medicines and cures have for a long time been extensively sold and distributed to and kept for sale in the hands of retail druggists and in retail stores where proprietary remedies and medicines are kept for sale to supply the demand and market for consumption thereof and have invariably until as hereinafter stated, been sold and disposed of by such retailers to the ultimate purchaser for consumption from such retail establishments at the said prices fixed, and in said peculiar, distinctive and original style and dress of packages aforesaid, with the letter press, names and fancy devices thereon unaltered, unobliterated and unobscured, and the demand and market therefor by consumers created and maintained by the advertisements and exploitations of your orator and the reputation of said remedies, medicines and cures thus supplied. Much the largest portion of your orator's said proprietary medicines, remedies and cures are offered for sale and sold through, at and by regular retail drug stores whose stock is limited to proprietary remedies, drugs and druggists' sundries, and much of the popularity and demand for your orator's proprietary medicines, remedies and cures, and the continuation thereof and of the sale and demand therefor depend largely upon the good will and commendation of such retail druggists and the fact that such druggists by selling at the prices fixed may realize a fair and reasonable profit. Certain retail stores and establishments some time since, particularly in class of stores
9 known as department stores and cut-rate drug stores have inaugurated and maintained a sys- *rate drug stores have inaugurated and maintained a sys-* tem of offering for sale well advertised and established proprietary medicines, remedies and cures, including your orator's proprietary medicines, remedies and cures, to consumers at retail prices lower than the prices fixed by the respective manufacturers and your orator and stamped upon the car-

tons and packages and inserted in the advertisements relating to said remedies, medicines and cures. Said system is known as the "Cut-Rate" or "Cut Price" system, and has resulted in much confusion, trouble and damage to your orator's business, and injuriously affected the reputation of your orator's remedies, medicines and cures, and depleted the sales thereof. The damage and injury to your orator's said business and the reputation of and demand for your orator's said proprietary medicines, remedies and cures result from the fact that the majority of retail druggists as a rule can not, or believe that they can not realize sufficient profits by the sale of your orator's said proprietary medicines at the cut prices announced by the cut rate and department stores and are, therefore, unwilling to, and do not keep your orator's proprietary medicines in stock, or if kept in stock, do not urge or favor sales thereof, but endeavor to foist off some similar remedy or substitute, and from the fact that in the public mind an article advertised or announced at "cut" or "reduced" price from the established price suffers loss of reputation and becomes of inferior value and demand. Whereupon, and in order to protect its trade sales and business and conserve its good will and reputation in the manufacture and sale of said proprietary medicines, remedies and cures, your orator adopted and established and put in force the following system and method of governing, regulating and controlling the sale and marketing of your orator's said proprietary remedies, medicines and cures. Contracts in writing were required to be executed by all jobbers and wholesale druggists to whom your orator sold its aforesaid remedies, medicines and cures, of the following tenor and effect:

"Consignment Contract—Wholesale.

The Dr. Miles Medical Company.

This agreement made by and between The Dr. Miles Medical Company, a corporation, of Elkhart, Indiana, hereafter referred to as the Proprietor, and —— —— hereinafter referred to as the Consignee, Witnesseth:

That the said Proprietor hereby appoints said Consignee one of its Wholesale Distributing Agents, and agrees to consign to such
10 Consignee for sale for the account of said Proprietor such goods of its manufacture as the Proprietor may deem necessary, the title thereto and property therein to be and remain in the Proprietor absolutely until sold under and in accordance with the provisions hereof, and all unsold goods to be immediately returned to said Proprietor on demand and the cancellation of this agreement. Said goods to be invoiced to consignee at the following prices:

Medicines, of which the retail price is $1.00; $8.00 per dozen.

Medicines (if any) of which the retail price is 50 cents; $4.00 per dozen.

Medicines, of which the retail price is 25 cents; $2.00 per dozen.

Freight on all orders, the invoice price of which amounts to

$100.00 or more, to be prepaid by the Proprietor; otherwise, freight to be paid by Consignee.

Said Consignee agrees to confine the sale of all goods and products of the said Proprietor strictly to and to sell only to the designated Retail Agents of said Proprietor as specified in lists of such Retail Agents furnished by said Proprietor and alterable at the will of said Proprietor, and to faithfully and promptly account and pay to the Proprietor the proceeds of all sales, after deducting as full compensation for all services, charges and disbursements a commission of ten per cent of the invoice value, and a further commission of five per cent on the net amount of each consignment, after deducting the said ten per cent commission, on all advances on account remitted within ten days from date of any consignment, it being agreed between the parties hereto that such advances shall in no manner affect the title to such goods, which title shall remain in the Proprietor as if no such advances had been made; provided that such advances shall be repaid to said Consignee should the said Proprietor terminate this agreement and the return of any unsold goods on which advances have been made. Said Consignee guarantees the payment for all goods sold under this agreement and agrees to render a full account and remit the net proceeds on the first day of each month of and for the sales of the month preceding. Failure to make such accounting and remittance within ten days from the first of each month shall render the whole account payable and subject to draft, but the proceeds of such draft shall not affect the title of any unsold goods, which shall remain in the Proprietor until actually sold, as herein provided.

It is further agreed that the Consignee shall furnish the Proprietor from time to time upon demand full statements of
11 the stock of goods of the Proprietor on hand on any date specified and that a failure to furnish such statements within ten days from date of such demand shall be a sufficient cause for the cancellation of this agreement, and a demand for the return of the consigned goods.

It is further agreed that the Proprietor will cause each retail package of its goods to be *in*dentified by a number and said Consignee hereby agrees to furnish the said Proprietor full reports upon proper cards or blanks furnished by said Proprietor of the disposition of each dozen or fraction of such goods by means of the identifying numbers, specifying the names and addresses of the Retail Agents to whom such goods have been delivered and the dates of such delivery, and to send such reports to said Proprietor at least semi-monthly, and at any other time on the request of said Proprietor.

It is understood and agreed between the parties hereto that the commissions herein specified shall not be considered as earned by said Consignee upon any goods of said Proprietor which shall have been delivered to dealers not authorized agents of said Proprietor, as per list of such agents, or upon any goods whose disposition by said Consignee shall not have been properly reported as herein provided, or sold at prices less than the prices authorized, and that

said Consignee shall not credit any such commissions when making remittances on consignment account provided notice has been given by said Proprietor that such commissions are unearned; and that if such unearned commissions have been deducted by said Consignee in making advance payments or monthly remittances on account they shall be charged back to said Consignee and credited and paid to said Proprietor. It is understood that violation or non-observance of any provision hereof by the Consignee shall make this agreement terminable and all unsold goods returnable at the option of the Proprietor.

It is agreed that the goods of said Proprietor shall be sold by said Consignee only to the said Retail or Wholesale Agents of said Proprietor, as per list furnished, at not less than the following prices, to-wit:

Medicines, of which the retail price is $1.00; $8.00 per dozen.

Medicines (if any) of which the retail price is 50 cents; $4.00 per dozen.

Medicines, of which the retail price is 25 cents; $2.00 per dozen.

Provided, that said Consignee may allow a cash discount not exceeding one per cent. if paid within ten days from date of
12 invoice, and that when sales at one time and at one invoice, amount to $15.00 or more, the said Consignee may allow three per cent trade discount, and if said purchase amounts to $50.00 or more, five per cent trade discount, all without cost to the Proprietor, and if such $50.00 quantity shall be shipped direct to the retail purchaser from the laboratory of said Proprietor, on the order from said Wholesale Distributing Agent, freight will be prepaid by the Proprietor, but not otherwise.

This contract will take effect when the original, duly signed by the Consignee, has been received and accepted by The Dr. Miles Medical Company, at Elkhart, Indiana.

Done under our hands —— —, A. D. 1907.

Fill in date on above line.

THE DR. MILES MEDICAL COMPANY.

—— ——, *Wholesale Dealer.*

Sign your name on above line.

Original. Return in Enclosed Envelope."

And written contracts were required with all retailers of your orator's said proprietary remedies, medicines and cures, as follows, to-wit:

"Retail Agency Contract.

The Dr. Miles Medical Company.

This agreement between The Dr. Miles Medical Company of Elkhart, Indiana, and —— ——, of ——, ——,

Retailer's Name on above line. Town. State.

hereinafter referred to as Retail Agent, witnesseth:

Appointed Agent.

The said Dr. Miles Medical Company hereby appoints said Retail Dealer as one of the retail distributing agents of its Proprietary Medicines and agrees that said Retail Agent may purchase the Proprietary Medicines manufactured by said Dr. Miles Medical Company (each retail package of which the said Company will cause to be identified by a number) at the following prices, to-wit:

Wholesale Prices.

Medicines, of which the retail price is $1.00; $8.00 per dozen.
Medicines, of which the retail price is 50 cents; $4.00 per dozen.
Medicines, of which the retail price is 25 cents; $2.00 per dozen.

Quantity Discounts.

Provided that when purchases at one time and on one invoice amount to $15.00 (or more), Wholesale Distributing Agents are
13 authorized to allow 3 per cent trade discount; if such purchase amounts to 50.00 (or more) 5 per cent trade discount will be allowed, and if such $50.00 quantity be shipped direct to the purchaser from the laboratory of said Dr. Miles Medical Company for the account of such Wholesale Agent, freight will be prepaid, but not otherwise.

Full Price.

In consideration whereof said Retail Agent agrees in no case to sell or furnish the said Proprietary Medicines to any person, firm or corporation whatsoever, at less than the full retail price as printed on the packages, without reduction for quantity; and said Retail Agent further agrees not to sell the said Proprietary Medicines at any price to Wholesale or Retail dealers not accredited agents of the Dr. Miles Medical Company.

Violation.

It is further agreed between the parties hereto that the giving of any article of value, or the making of any concession by means of trading stamps, cash register coupons, or otherwise, for the purpose of reducing the price above agreed upon shall be considered a violation of this agreement, and further it is agreed between the parties hereto that the Dr. Miles Medical Company will sustain damage in the sum of twenty-five dollars ($25.00) for each violation of any provision of this agreement, it being otherwise impossible to fix the measure of damage.

This contract will take effect when a duplicate thereof, duly

signed by the Retail Agent, has been received and approved by The Dr. Miles Medical Company, at its office at Elkhart, Indiana.

Done under our hands —— —, A. D. 1907.

Fill in date on above line.

THE DR. MILES MEDICAL COMPANY.

—— ——, *Retail Dealer.*

Sign your name on above line in Ink.

To Retail Dealer:

Paste printed label, giving name and address, that your name may be correctly listed.

Duplicate. Keep for Reference."

And in connection with said contracts and sales, and as a means of enforcing and maintaining said system of prices and preventing the cutting and demoralization of prices, and to trace and identify each wholesale and retail package of said proprietary medicines, remedies and cures, your orator has stamped upon each package or carton of its said proprietary medicines, remedies and cures a serial number for identification and placed in each package of said
14 proprietary remedies, medicines and cures manufactured by it and sold to jobbers and wholesale druggists, cards bearing corresponding serial numbers, and has required and provided in the said contracts that said jobbers or wholesale druggists agents of your orator upon the sale of any bottle or package of your orator's proprietary remedies, medicines or cures, as aforesaid, place upon said cards so furnished, which said cards bear the same serial number that is stamped upon the package of carton containing the proprietary remedy accompanying said card, the name and address of the retail druggist or establishment purchasing the same, and also the name of the wholesale druggist or jobber agent selling the same, and to return the same to your orator. That by and under the provisions of said wholesale agency contracts aforesaid, the title of your orator to the said proprietary medicines supplied thereunder to jobbers and wholesale druggists remains and is vested in your orator until actual sale in good faith to retail dealers, as therein provided. The entire purpose and object of the said system of contracts serial numbers, cards and stamping — to identify and trace the said proprietary medicines, remedies and cures of your orator upon the market and control the sale thereof, and prevent the cutting of prices and the demoralization of trade and the injury and damage resulting to your orator's aforesaid trade, business and good will in the manufacture and sale of said remedies, medicines and cures, as aforesaid, and your orator asserts and charges that said system and method, both in its form and purpose, are reasonable, regular, lawful and proper, and, if observed, will accomplish the aforesaid purposes and greatly benefit your orator in its aforesaid business, and in the sale of its said proprietary remedies and medicines, and conserve and advance the market, trade and good will therein, and increase the sales of and demand for said proprietary remedies, medicines and cures and that the introduction and establishment of

said system and method of contracts and sales has been accomplished at the expense and cost of over twenty thousand dollars to your orator, and has been devised and established by your orator and put into force for your orator's said proprietary medicines and remedies without in any way concerning, colluding, conspiring, joining with or affecting any other manufactures or medicine, remedy or cure whatsoever. All druggists, wholesale and retail, and all dealers in proprietary medicines and cures have been and are given full opportunity without distinction of discrimination to sign said contracts and are supplied with your orator's said proprietary remedies, medicines and cures without discrimination or distinction upon signing and observing the said contracts and system, and contracts of the kinds aforesaid are now in full force and effect between your orator and over four hundred jobbers and wholesalers and twenty-five thousand retail dealers in proprietary medicines in the United States by whom your orator's medicines, remedies and cures are now kept on sale and sold, as provided in said contracts, and in which said wholesale and retail authorized establishments only your orator's said proprietary medicines, remedies and cures are procurable and on sale except in establishments where the same have been unlawfully and illegally and contrary to the terms and provisions of said contracts and system by fraud and collusion obtained and offered for sale and sold against the protest and to the injury of your orator.

IV.

Your orator further shows unto your Honors that said system and method and the design and effect of said contracts and the purposes thereof are well known to the defendant, to the public and to jobbers, wholesale druggists, retail druggists and retail stores generally; that your orator's aforesaid system has been generally adopted and recognized, and most of the jobbers and wholesale druggists and a majority of the retail druggists of the country have executed the contracts and complied with the terms and conditions thereof, and that said system has been of great benefit and advantage to your orator and its aforesaid business, and has increased the trade and business of your orator in its said proprietary medicines, remedies and cures.

V.

Your orator further shows unto your Honors, that said packages and cartons containing your orator's medicines, remedies and cures show and exhibit as part of the letter press on the exterior the prices and said identifying serial numbers adopted by your orator for the purposes of identification herein set forth, and also statements of ailments and diseases for which the proprietary medicines, remedies and cures are adapted, intended and recommended by your orator and determined upon after much care, many experiments and much research, and which are intended to and do enable said medicines, remedies and cures to be taken properly and with beneficial results; and your orator shows that the said lists and statements of ailments for which said proprietary remedies, medicines and cures are adapted,

intended and recommended are a valuable and indispensable adjunct to the various proprietary remedies, medicines and cures, and sale and use thereof, and, without such lists and statements, said
16 proprietary remedies, medicines and cures can not be advantageously used and employed, and that the same should not and can not be properly and safely obliterated or defaced; and that said peculiar, distinctive, original and characteristic style and dress of packages and said trade mark, letter press and trade names used upon and in connection with its various proprietary remedies, medicines and cures were adopted both for the purpose of advertising and exploiting the same, and of enabling the public to identify the same as your orator's, and for the additional reason that thereby your orator's trade could be perpetuated and purchasers safeguarded against imitation by and the substitution of other products as and for your orator's for the reason that by means of said characteristic dress of packages, letter press, trade names and trade mark, your orator's products could be and are readily recognized by the public and buyers and that said statements and lists of ailments for which said proprietary medicines, remedies and cures are adopted, intended and recommended were adopted and employed for the purpose and with the result of enabling buyers to use said proprietary remedies, medicines and cures with safety and advantage, and to advertise, announce, and promote the sale of said proprietary remedies, medicines and cures and that the said desired purposes and intentions have been and are now being accomplished and realized thereby, and that as a matter of fact the said packages and cartons and the letter press, trade names and trade mark thereon do indicate to the public, dealers and buyers for use that the products to which the same are affixed are the manufacture and product of your orator and identify and advertise and promote the sale of said proprietary medicines, remedies and cures, and inform for what ailments adapted and intended, and the same are of great value and are the exclusive property of your orator for the purposes aforesaid. That it has long been and now is the universal custom of retailers, except in recent times of defendant, to offer for sale and sell your orator's said proprietary medicines, remedies and cures and proprietary remedies in general in the original packages unmutilated and unobliterated and with the letter press, trade marks and insignia thereon legible and unobscure, and such has been and is the custom and understanding universally in the purchase and sale of your orator's said proprietary remedies, medicines and cures both on the part of your orator and of purchasing jobbers and retailers.

17 VI.

Your orator shows that it is therefore entitled to maintain and preserve the aforesaid system and method of contracts and sales adopted and established by it, as aforesaid, and prevent the marketing and sale of its proprietary medicines, remedies and cures except in conformity therewith, to have its said proprietary medicines, remedies and cures offered for sale and sold to buyers for use with the packages, cartons, labels, letter press, trade names, and trade mark thereon legible and unobscured, unobliterated and unmutilated.

VII.

Your orator further shows unto your Honors that the said defendant was, prior to the adoption by your orator of the aforesaid system of contracts, serial cards, numbers and reports, and long after the adoption by your orator of the various distinctive, characteristic and original style and dress of package adopted by your orator as aforesaid, and the establishment of your orator's good will, trade and rights aforesaid, and with full knowledge thereof, a dealer in your orator's proprietary remedies, medicines and cures, and purchased said proprietary remedies, medicines and cures of your orator from your orator and wholesale druggists and jobbers, and sold and kept the said proprietary medicines, remedies and cures of your orator for sale at wholesale and sold and supplied the same to retail dealers upon inquiry and request, and that immediately upon the adoption and introduction by your orator of the aforesaid system and method, said defendant was notified by your orator of said system and method, and became and has since continued to be well advised and acquainted with the terms and conditions thereof, and of the terms and conditions of the contracts aforesaid required by your orator to be executed by jobbers, wholesale druggists, retail druggists and retailers in connection with the purchase and sale of your orator's proprietary medicines, remedies and cures; that the defendant has long been also well aware of the characteristics, purposes and value of the peculiar, distinctive, original and characteristic style and dress of packages adopted and used by your orator in connection with its said proprietary remedies, medicines and cures, and of the trade mark, trade names lists of ailments, numerals and letter press thereon, and also advised and the public and buyers at retail identify and recognize the same thereby, and of the value and necessity of the said trade marks, trade names, lists of ailments intended to be benefited, and of the numerals, prices and letter press upon and in connection with said proprietary medicines, remedies and
18 cures, and of the universal custom and rule on the part of retail druggists and establishments of offering for sale and selling proprietary medicines, in general, and your orator's proprietary medicines, remedies and cures in particular, in the original packages with the cartons, labels, trade names, trade mark, numerals, lists of ailments and letter press thereon unmutilated, unobliterated, intact and legible and of the establishment of your orator's trade reputation and good will in retail stores, as aforesaid; that the said defendant has been tendered and has had full, ample and complete opportunity to execute said wholesale agency contract required by your orator, as aforesaid; that your orator has tendered to said defendant and requested it to sign, execute, observe and carry out said wholesale contract, and said defendant has wholly neglected and refused so to do; that at the city of Cincinnati, in the State of Ohio, where said defendant carries on and conducts a wholesale drug store, as aforesaid, are a large number of druggists, wholesale and retail, many of whom have executed the said contracts with your orator of the tenor, form and effect above set forth, and who have purchased, either from your orator or from jobbers and wholesale

druggists who have executed said wholesale contracts with your orator, the proprietary remedies, medicines and cures of your orator, and who keep the same on sale at the prices and under the terms and conditions provided in said wholesalers' and retailers' contracts, respectively, and who observe the terms and conditions of said contracts and offer for sale and sell the said proprietary remedies, medicines and cures of your orator upon request at the prices fixed by your orator respectively, and in said peculiar, distinctive, original and characteristic style and dress of packages adopted and used by your orator, with said trade marks, trade names and lists of ailments for which adapted, intended and recommended and letter press thereon unmutilated, unobliterated, unaltered and legible.

VIII.

Your orator further shows that as a result of the meritorious character of your orator's said proprietary medicines, remedies and cures, and the advertisement, exploitation, sale and preparation thereof, as aforesaid, there has arisen and now exists a steady and constant demand for the same at retail drug stores and establishments, both by former users and consumers who are acquainted with the meritorious and desirable character and beneficial effects of your orator's said proprietary medicines, remedies and cures, and who desire to make new, continued and further purchases thereof
19 at said retail drug stores and establishments for use and consumption, and also by and on the part of others who desire and intend to purchase the same because of the established good reputation thereof, both of which classes of purchasers intend and desire to obtain bottles containing your orator's proprietary remedies, medicines and cures, with the wrappers and labels thereon unmutilated, unobliterated and unbroken, and with the medical theory, list of ailments and directions for use thereon unobliterated, unobscured and legible, and that your orator is entitled to have its said proprietary remedies, medicines and cures reach consumers with the labels and wrappers in the same condition as when prepared and put up in your orator's laboratory and with the letter press, prices, serial numbers, trade marks and directions thereon legible and unmutilated. That the defendant is well advised of all the facts and matters set forth in the premises and of the aforesaid custom among wholesale and retail dealers of selling your orator's proprietary remedies, medicines and cures with the wrappers, labels and letter press thereon unmutilated and unobscured, and also of your orator's said established system and method of contracts and sales, relating to said proprietary medicines, remedies and cures, and that with full knowledge of the aforesaid facts the said defendant, as your orator is informed and believes, and charges the fact to be, who has not made or entered into any contract, wholesale or retail, with your orator, as required by your orator's said system and method, and who is, therefore, not entitled to buy or deal in your orator's proprietary medicines, remedies and cures and since the establishment of your orator's aforesaid system of contracts and sales, not for the purpose of fairly, honestly and legitimately dealing in your orator's aforesaid proprietary remedies, medicines

and cures, but in combination and conspiracy with a number of wholesale and retail dealers in drugs and proprietary medicines, who have not entered into said wholesale and retail contracts required by your orator's system and method, and solely for the purpose of using, selling and disposing of your orator's aforesaid proprietary remedies, medicines and cures to wholesale and retail dealers to be advertised, sold and marketed at cut rates and prices less than the retail prices fixed by your orator for the same and to thus attract and secure custom and patronage for other merchandise, and not for the purpose of making or receiving a direct money profit from the sale of your orator's said proprietary remedies, medicines and cures, has unlawfully and fraudulently obtained and procured from time to time your orator's said proprietary remedies, medicines and cures from your orator's wholesale and retail agents who have executed with your orator contracts respectively of the tenor and effect aforesaid and thereby and thereunder obtained your orator's said proprietary medicines, remedies and cures, both directly and indirectly, by means of false and fraudulent representations and statements, and by surreptitious and dishonest methods, and by persuading and inducing, directly and indirectly, your orator's said wholesale and retail agents, under contracts with your orator, as aforesaid, to violate and break said contract, and in violation of the terms, and conditions thereof, and sell and supply your orator's proprietary remedies, medicines and cures, to said defendant. That said proprietary medicines are obtained and the violation of said contracts accomplished by collusion, promises, payment of consideration and untrue statements by said defendant to said wholesale and retail agents of your orator. That after having procured your orator's said proprietary remedies, medicines and cures, directly and indirectly, by and through said unlawful and dishonest means, has advertised, announced, sold and supplied and continues to advertise, announce, sell and supply your orator's said proprietary remedies, medicines and cures to dealers at less than the established retail prices thereof, and at less than the jobbing prices thereof; that said defendant is at all times fully advised and aware that the said wholesale and retail agents of your orator from whom defendant by the means aforesaid procures and obtains said proprietary medicines, remedies and cures of your orator are respectively at the time of so procuring and obtaining under contracts of the tenor and effect aforesaid with your orator and can not sell or supply said medicines, remedies and cures to defendant without violation thereof; that defendant after so illegally and fraudulently obtaining and procuring from your orator's wholesale and retail agents in violation of their contracts with your orator, as aforesaid, the said proprietary medicines, remedies and cures, who have purposely and in collusion with defendant, and for the purpose of concealing the source of supply of defendant obliterated and scratched off said serial numbers, prices and mutilated and rendered the labels, lists of ailments and directions thereof illegible, or after so procuring said proprietary medicines, remedies and cures, with wrappers and labels intact, by the unlawful and dishonest methods, directly and indirectly, as aforesaid, deliberately scratches off, obliter-

ates and erases the serial indentification numbers which are stamped by your orator in the various places upon the labels and cartons of said proprietary medicines, remedies and cures, and the di-
21 rections, prices, lists of ailments and letter press on said cartons and labels, and in so doing, thus destroys, mutilates, obliterates, obscures and renders illegible the said labels and cartons of your orator's said proprietary remedies, medicines and cures, and defaces and destroys the letter press and renders the said list of ailments, and directions for use illegible and unintelligible, and after so having mutilated, altered, obliterated, changed and obscured the labels and cartons, offers for sale and sells at cut prices and rates your orator's proprietary remedies, medicines and cures in said condition with the labels and cartons obscured, obliterated, broken, mutilated in the manner and to the extent aforesaid, to wholesale and retail dealers for ultimate sale at cut rates and prices to buyers for use, in said condition, which sales of said proprietary medicines, remedies and cures with wrappers and labels removed and mutilated as aforesaid, and at cut rates and prices are thereupon by said purchasers from defendant made and consummated and intended by defendant to be done and accomplished, all in violation of your orator's rights, and to the injury and detriment of your orator's trade and reputation, and of the reputation of and trade and good will in your orator's said proprietary remedies, medicines and cures. That the result of the conduct of the defendant in the premises is that irreparable injury and damages have resulted and will continue to result to your orator's trade and good will and to the said system and method of sales and contracts, and to the reputation and demand for your orator's proprietary medicines, remedies and cures; that thereby your orator's sales have been and will be lessened and prevented, and the reputation and demand for your orator's proprietary medicines, remedies and cures; *that thereby your orator's sales -utation and demand for your orator's remedies injured and damaged;* that the defendant gives out and announces that it will pursue its conduct in the premises, and your orator verily believes that it will do so unless prevented by legal process; that the conduct of the defendant in the premises both in unlawfully and illegally obtaining the proprietary medicines, remedies and cures of your orator and in the mutilation, breaking, destruction, obliteration and defacement of the labels and cartons, and offering for sale and selling the same in that condition, each and all constitute a continuous and injurious trespass upon and invasion of your orator's trade and property rights, and if continued will not only inflict irreparable damage and injury upon your orator's trade and rights, but utterly destroy and ruin the sale and reputation of and good will and trade in said method and
22 system of sales of your orator's said proprietary medicines, remedies and cures. The value of your orator's said system of contracts and sales and of the labels and cartons upon your orator's proprietary remedies, medicines and cures, and the right to prevent the mutilation and alteration of each thereof, and the right to have your orator's remedies and medicines offered for sale and sold as and in the condition put out by your orator each exceeds the sum of

five thousand dollars, and the sum or value in controversy herein exceeds, exclusive of interest or costs, the sum or value of five thousand dollars.

IX.

Forasmuch, therefore, as your orator is without remedy in the premises, save in a Court of Equity, and to the end that the said defendant may full, true, perfect and distinct answer make to each and all of the allegations herein, but not under oath, the answer under oath of the said defendant being hereby waived, as by rule provided; that a hearing may be had herein; that your orator's rights in the premises may be established and defined; that the defendant, its agents, servants, employés, attorneys and associates, and each thereof may be, at first during the pendency of this suit and afterwards perpetually, enjoined and restrained from in any manner inducing or persuading, or attempting to procure, induce or persuade, directly or indirectly, any person, firm or corporation who has entered into the aforesaid wholesale or retail agency contracts, or any of them, with your orator, relating to the purchase and sale of your orator's proprietary remedies, medicines and cures, to in any way violate or break the same, or to sell or deliver to the defendant, or to any person for it, your orator's proprietary remedies, medicines and cures, to in any way violate or break the said contracts, or to sell or deliver to the defendant, or to any person for it, your orator's proprietary remedies, medicines and cures, or any thereof, and from procuring, or attempting to procure, in any way your orator's proprietary remedies, medicines and cures, directly or indirectly, from any wholesale or retail dealer who has executed such wholesale or retail agency contract with your orator, in violation of the same; from advertising, selling or offering for sale the proprietary remedies, medicines and cures of your orator obtained in or by any of the aforesaid means at prices less than the established retail price thereof, or to wholesale or retail dealers who have not entered into such wholesale or retail contracts with your orator, and from in any way obliterating, defacing, mutilating, breaking, altering,
23 removing, covering up, or destroying the labels and cartons upon the bottles containing your orator's proprietary remedies, medicines and cures, or any of the said cartons or labels, and from offering for sale or selling your orator's proprietary remedies, medicines or cures with cartons or labels or the letter press and numerals thereon in any way obliterated, mutilated, broken, altered, destroyed or covered up; that an accounting may be had with the defendant relative to the profits derived by it from its lawful conduct in the premises, and the damages resulting to your orator therefrom; and that your orator may have such other and further relief as is consistent with justice and equity in the premises.

Your orator prays that the Writ of Injunction, first temporary and afterwards permanent, may issue out of this court directed to the defendant, its officers, agents, servants, attorneys, employés, associates and assigns, commanding and enjoining it and them in manner and form aforesaid, and the Writ of Subpœna in Chancery,

directed to the defendant, John D. Park & Sons Company, commanding it to be and appear before this Honorable Court in the City of Covington on a day certain therein named, there to answer make and abide the further order of the Court in the premises, and thus your orator will ever pray, etc.

THE DR. MILES MEDICAL CO.,
Complainant.
FREDERICK W. HINKLE,
Solicitor for Complainant.
FRANK F. REED &
EDWARD S. ROGERS,
Of Counsel for Complainant.

STATE OF ILLINOIS,
County of Cook, ss:

Fred K. Fernald, being duly sworn, deposes and states that he is the Assistant Secretary and Manager of the Dr. Miles Medical Company, complainant in the above and foregoing bill of complaint; that he has read the said bill of complaint, and knows the contents thereof, and that the same, and the matters and facts therein stated, are true save the matters and facts stated to be upon information and belief, and that as to these affiant verily believes the same are true.

(Signed) F. K. FERNALD.

Subscribed and sworn to before me, this 16th day of September, A. D., 1907.

[SEAL.] MARGARET SHEALY,
Notary Public.

Subpœna.

Issued November 6, A. D. 1907.

The President of the United States of America to John D. Park & Sons Company, Greeting:

24 You are hereby commanded to appear before our Circuit Court of the United States of America, for the Eastern District of Kentucky, at the Federal Court Hall, in the city of Covington, on the first Monday in December next, to answer a Bill of Equity, exhibited against you in our said court by The Dr. Miles Medical Company which you shall in no wise omit, under the penalty of the law.

Witness the Honorable Melville W. Fuller, Chief Justice of the Supreme Court of the United States of America, and the seal of our said Circuit Court hereto affixed, at the clerk's office of said court, at Covington, this 6th day of November, A. D. 1907 and in the 132d year of our Independence.

Attest:

[SEAL.] JOS. C. FINNELL,
C. C. C. E. K. D.,
By J. W. MENZIES,
His Deputy.

Memorandum.

The defendant to enter its appearance in the suit in the clerk's office, on or before the 2d day of December next, the day at which the writ is returnable, otherwise the bill may be taken pro confesso.

JOS. C. FINNELL, *Clerk,*
By J. W. MENZIES,
His Deputy.

Executed November 23, 1907, on J. D. Parks & Sons, by delivering a true copy to G. S. Parks a member of the firm at his residence near Sandfordtown, Ky.

S. G. SHARP, *U. S. M.*
EMMETT ORR, *D. M.*

M. Costs $4.10.

Appearance Entered and Filed November 18, 1907.

Circuit Court of the United States for the Eastern District of Kentucky.

No. 2558.

THE DR. MILES MEDICAL CO., Complainant,
vs.
JOHN D. PARK & SONS CO., Defendant.

Entry of Appearance.

To the Clerk of said Court:

Please enter my appearance as solicitor and counsel on behalf of John D. Park & Sons Company, a corporation under the laws of Kentucky, defendant in the above entitled cause.

WILLIAM J. SHRODER,
Solicitor and Counsel for John D. Park & Sons Company.

Demurrer.

Filed November 18, 1907.

United States Circuit Court, Eastern District of Kentucky.

25 No. 2558.

THE DR. MILES MEDICAL CO., Complainant,
vs.
JOHN D. PARK & SONS CO., Defendant.

Demurrer.

The Demurrer of the Defendant Above Named, John D. Park & Sons Company, to the Bill of Complaint of The Dr. Miles Medical Company, the Above Named Complainant.

(1) This defendant, by protestation, not confessing or acknowledging all or any of the matters or things in the said bill of complaint contained to be true, in such manner and form as the same are therein set forth and alleged, doth demur to said bill, and for cause of demurrer showeth, that the said complainant has not in and by said bill made or stated such a cause as doth or ought to entitle him in a court of equity to such relief from or against this defendant as is thereby sought and prayed for.

Wherefore, and for diverse other errors and imperfections, and other good causes of demurrer appearing in the said bill, this defendant doth demur thereto and humbly prays the judgment of this Honorable Court whether it shall be compelled to make any answer to said bill, and to be hence dismissed with its costs and charges in this behalf most wrongfully sustained.

(2) And this defendant, further, by protestation, not confessing or acknowledging all or any of the matters or things in said bill of complaint contained to be true, in such manner and form as the same are therein set forth and alleged, and not waiving its aforesaid demurrer to all of said bill, but wholly relying thereon, doth further demur as to so much and to such parts of said bill as charges and alleges that this defendant mutilates, breaks, scratches off, destroys, obliterates, erases and defaces the labels and wrappers upon the proprietary medicines, remedies and cures of the complainant, obtained, purchased, acquired and owned by it and the serial identification numbers and letter press thereon, and the seals of cork labels thereof, and offers for sale and sells the same in that condition, and prays that this defendant, its agents, etc., may be enjoined and restrained from in any way obliterating, defacing, mutilating, breaking, altering, removing, covering up or destroying the labels and wrappers upon the bottles containing the proprietary medicines, remedies and cures of the complainant, obtained, purchased, acquired and owned by this defendant, or from offering for sale or selling the same in

that condition, and for cause of demurrer to such part of said
26 bill showeth that the said complainant has not in and by said bill made or stated a cause entitling him in a court of equity to any such relief from or against this defendant as is thereby prayed for, or any part thereof, and this defendant humbly prays the judgment of this Honorable Court as to whether it shall be compelled to answer such part of the said bill so demurred to, and to be hence dismissed with its costs and charges in this behalf most wrongfully sustained. Dated November 18, 1907.

WILLIAM J. SHRODER,
Solicitor for Defendant.

UNITED STATES OF AMERICA,
Southern District of Ohio, ss:

Ambro R. Park being duly sworn deposes and says: That he is the Vice President of John D. Park & Sons Company, the defendant above named; that he has read the foregoing demurrer and knows the contents thereof and that the said demurrer is not interposed for delay.

AMBRO R. PARK.

Subscribed and sworn to before me this 18th day of November, 1907.

[N. S.] HARRY C. BARNES,
Notary Public in and for Hamilton County, Ohio.

I hereby certify that the foregoing demurrer is in my opinion well founded in point of law.

Dated, Cincinnati, Ohio, November 18, 1907.

WILLIAM J. SHRODER,
Counsel for the Defendant.

Decree.

Entered February 28, 1908.

In the United States Circuit Court for the Eastern District of Kentucky.

THE DR. MILES MEDICAL CO., Complainant,
vs.
JOHN D. PARK & SONS CO., Defendant.

The demurrers of the defendant to the bill of complaint herein having come on for argument, and the same having been duly argued by counsel, and the court being fully advised, sustains the said demurrers whereupon the complainant elects to stand by its bill of complaint, and the court thereupon dismisses the said bill of complaint, for want of equity, at complainant's cost, from which action of the court in sustaining the said demurrers in dismissing the said bill and in denying and refusing the relief therein prayed and each and

every part thereof, complainant in open court, by its counsel, duly excepts and prays an appeal to the United States Circuit Court of Appeals for the Sixth Circuit, whereupon the court allows the
27 said appeal and fixes the bond at the sum of two hundred and fifty dollars.

Petition for Appeal.

Filed February 28, 1908.

In the United States Circuit Court for the Eastern District of Kentucky.

THE DR. MILES MEDICAL CO., Complainant,
vs.
JOHN D. PARK & SONS CO., Defendant.

Now comes the said Dr. Miles Medical Company, complainant in the above entitled cause, by Frank F. Reed and Edward S. Rogers, its attorneys and solicitors, and prays an appeal to the United States Circuit Court of Appeals for the Sixth Circuit, from the final decree of the said Circuit Court of the United States in the above entitled cause, entered on the 28th day of February, 1908, dismissing the said bill of complaint for want of equity, at complainant's cost, and in sustaining the said demurrers and in denying the complainant the relief and each and every part thereof as prayed in said bill of complaint.

FRANK F. REED &
EDWARD S. ROGERS,
Solicitors for Complainant.

Assignment of Errors.

Filed February 28, 1908.

In the United States Circuit Court for the Eastern District of Kentucky.

THE DR. MILES MEDICAL CO., Complainant,
vs.
JOHN D. PARK & SONS CO., Defendant.

Assignment of Errors.

And now comes said The Dr. Miles Medical Company, complainant in the above entitled cause, by Frank F. Reed and Edward S. Rogers, its solicitors, and says that in the record and proceedings in the above entitled cause and in said final decree therein entered by said Circuit Court of the United States on the 28th day of February, 1908, dismissing the said bill of complaint for want of equity at complainant's cost, in sustaining said general and special demurrers

thereto and in denying complainant the relief therein prayed and each and every part thereof, there is manifest error in this: That said court erred in dismissing said bill of complaint for want of equity at complainant's cost and in sustaining the said general and special demurrers thereto and in denying and refusing to the complainant the relief and each and every part thereof as prayed
28 in said bill of complaint, by reason whereof said complainant prays that said final decree may be reversed and that the defendant be required to answer the said bill of complaint, and that such other orders may be entered therein as equity and justice may require.

FRANK F. REED &
EDWARD S. ROGERS,
Solicitors for Complainant.

Order Allowing Appeal.

Entered and Filed February 28, 1908.

In the United States Circuit Court for the Eastern District of Kentucky.

THE DR. MILES MEDICAL CO., Complainant,
vs.
JOHN D. PARK & SONS CO., Defendant.

And on this day comes the said complainant and presents to the court a petition for an appeal to the United States Circuit Court of Appeals for the Sixth Circuit, from the final decree of this court entered in this cause on the 28th day of February, 1908, dismissing the bill of Complaint herein for want of equity, at complainant's cost, sustaining the demurrers to the said bill of complaint and refusing the complainant the relief and each and every part thereof as prayed in said bill of complaint, and the court doth fix the bond of said complainant upon such appeal at the sum of two hundred and fifty dollars, the same and the surety thereon to be approved by the court; and being fully advised doth allow said appeal, and said bond having been submitted with the Fidelity & Deposit Company of Maryland, as surety, the Court doth hereby approve the said bond as to form and surety.

——— ———.

Bond on Appeal.

Approved and Filed February 28, 1908.

Bond on Appeal.

Know all men by these presents, That we, Dr. Miles Medical Company, a corporation duly organized and existing under and by virtue of the laws of the State of Indiana, as principal, and Fidelity & De-

posit Company of Maryland, a corporation duly organized and existing under and by virtue of the laws of the State of Maryland, as surety, are held and firmly bound unto John D. Park & Sons Company, a corporation organized under the laws of the State of Kentucky, its legal representatives, successors and assigns, in the just and full sum of two hundred and fifty ($250.00) dollars to be paid to the said John D. Park & Sons Company, its legal representatives, successors and assigns, to which said payment well and truly
29 to be made, we bind ourselves, our successors, legal representatives and assigns jointly and severally firmly by these presents.

Sealed with our seals, and dated this 28th day of February, A. D. 1908.

Whereas, at a session of the United States Circuit Court for the Eastern District of Kentucky, in a suit pending in said court between said the Dr. Miles Medical Company, as complainant and the said John D. Park & Sons Company, as defendant, a decree was on the 28th day of February, A. D. 1908, entered therein, whereby said bill of complaint of the said Dr. Miles Medical Company was dismissed for want of equity, at complainant's cost, general and special demurrers to the bill of complaint were sustained and all relief and every part thereof prayed in said bill of complaint was denied, from such decree said complainant has prayed an appeal to the United States Circuit Court of Appeals for the Sixth Circuit, which said appeal has been allowed.

Now, the condition of the above obligation is such that if the said Dr. Miles Medical Company shall prosecute its said appeal with effect and answer all costs if it fails to make its plea good, then the above obligation to be void, else to remain in full force and effect.

Attest:

[SEAL.] DR. MILES MEDICAL CO.
GEORGE E. COMPTON, *V. O.* [SEAL.]
F. K. RENALD,
Assistant Secretary. [SEAL.]
FIDELITY & DEPOSIT CO. OF MD.,
By PAUL M. MILLIKIN,
Resident Vice President,
By JOHN O. RYAN,
Resident Assistant Secretary.

Approved as to form and surety this 28th day of February, A. D. 1908.

A. M. J. COCHRAN, *Judge.* [SEAL.]

United States Circuit Court of Appeals for the Sixth Circuit.

UNITED STATES OF AMERICA,
Sixth Judicial Circuit, ss:

Citation.

Issued February 28, 1908.

To John D. Park & Sons Company, Greeting:

You are hereby cited and admonished to be and appear at a session of the United States Circuit Court of Appeals for the Sixth Circuit, to be holden at the City of Cincinnati, in said Circuit, on the* 28th day of March next, pursuant to a Petition for Appeal, filed in the clerk's office of the Circuit Court of the United States for the Eastern District of Kentucky, wherein Dr. Miles Medical Company is appellant and you are appellee, to show cause, if any there be, why the decree rendered against the said appellant as in the said Petition for Appeal mentioned, should not be corrected, and why speedy justice should not be done to the parties in that behalf.

Witness the Honorable Melville W. Fuller, Chief Justice of the United States, this 28th day of February, in the year of our Lord one thousand nine hundred and eight, and of the Independence of the United States of America the one hundred and thirty-second.

A. M. J. COCHRAN,
United States District Judge.

*Not exceeding 30 days from the day of signing.

Service accepted February 28, 1908.

WILLIAM J. SHRODER,
Solicitor for John D. Park & Sons Company.

No. 2558. United States Circuit Court, Southern District of Ohio. Dr. Miles Medical Company, Appellant, vs. John D. Park & Sons Company, Appellees. Citation on Appeal.

UNITED STATES OF AMERICA,
Eastern District of Kentucky, ss:

I, Jos. C. Finnell, clerk of the United States Circuit Court, for the Sixth Judicial Circuit and Eastern District of Kentucky, at Covington, do hereby certify the above and foregoing to be a true and complete transcript of the proceedings had of record in said court in the cause entitled Dr. Miles Medical Company vs. John D. Park & Sons Company, as the same appears from the original records and files of said court remaining in my custody and control.

In testimony whereof, I have hereunto set my hand and affixed

the seal of said court at my office in the city of Covington in said District, this 28th day of February, A. D. 1908.

JOS. C. FINNELL, *Clerk*,
[SEAL.] By J. W. MENZIES,
Deputy Clerk.

31 And afterwards towit on May 5th, 1908, an entry was made upon the Journal of said Court in the words and figures as follows:

United States Circuit Court of Appeals for the Sixth Circuit.

DR. MILES MEDICAL COMPANY
vs.
JOHN D. PARK & SONS COMPANY.

Before Lurton, Severens and Richards, Circuit Judges.

This cause is argued by Mr. Frank F. Reed for the appellant and by Mr. William J. Shroder for the appellee and is submitted to the Court.

And afterwards towit on June 2nd, 1908, a decree was entered in said cause which reads and is as follows:

United States Circuit Court of Appeals for the Sixth Circuit.

1797.

DR. MILES MEDICAL COMPANY
vs.
JOHN D. PARK & SONS COMPANY.

32 Appeal from the Circuit Court of the United States for the Eastern District of Kentucky.

This cause came on to be heard on the transcript of the record from the Circuit Court of the United States for the Eastern District of Kentucky and was argued by counsel.

On consideration whereof, it is now here ordered, adjudged and decreed by this Court, that the decree of the said Circuit Court, in this cause be and the same is hereby affirmed with costs.

And afterwards towit on the — day of ——, 1908, an opinion was filed in said cause clothed in the words and figures as follows:

Opinion.

33 United States Circuit Court of Appeals, Sixth Circuit.

No. 1797.

DR. MILES MEDICAL COMPANY
v.
JOHN D. PARK & SONS COMPANY.

Appeal from the Circuit Court of United States for the Eastern District of Kentucky.

Submitted May 5, 1908. Decided June 2, 1908.

Before Lurton, Severens and Richards, Circuit Judges.

This is a bill by manufacturers of proprietary medicines who put them upon the market under a system of contracts intended to maintain the prices fixed by them. There are two forms of these contracts, one with wholesalers and another with retailers. Like contracts, it is claimed, have been made and signed by nearly all jobbers and retailers in the United States who deal in such goods. These contracts are set at end of the opinion.

The defendant company refuses to enter into any such agreement and, according to the averment of the bill, illegally induces persons who have to violate their contracts by selling to him though unauthorized to buy and at prices below those which such persons are required to exact. It is also averred, that for the purpose of protecting the seller from the consequences of a breach of contract the defendant company defaces the carton enclosing the medicine and destroys the evidence thereon or thereto attached by which, through a serial number, complainant might trace the seller who breached the contract. In addition it is charged, that defendant sells
34 to retailers who carry on a "cut rate" business, who in turn retail to consumers at rates less than those at which complainant requires all retailers to exact from persons buying for use. The bill in all its important averments as to the manner in which complainant carries on its business and the advantages of such method and the evils of the "cut rate" business in such goods as well as its averments as to the knowledge of the system possessed by the defendant, are substantially identical with the averments of the bill under consideration by this court in *Jno. D. Park & Sons Co.* v. *Hartman*, 153 F. R. 24. In the Hartman system of contracts, the contract between Hartman and the jobber was confessedly one of sale, under the Dr. Miles system it is claimed, it is one of consignment or agency and not sale. With this distinction, if it exist, the opinion in the Hartman case may be referred to for a more detailed statement of the evils of the competitive or "cut rate" system and the advantages of the one price or non-competitive

plan which the complainant seeks to bring about by the system of contracts here involved.

The acts and conduct against which complainant seeks relief are identically the conduct complained of in the Hartman case and the opinion in that case may be referred to for a more detailed statement of the case here made for relief.

A demurrer to the bill was sustained upon the authority of the opinion of this court in the Hartman case.

LURTON, Circuit Judge, after making the foregoing statement of the case delivered the opinion of the court.

We see no substantial difference between the systems of contracts under which the Dr. Miles Medical Company is now conducting its business and that under which Dr. Hartman carried on his business as a manufacturer of Peruna, considered by this court at length in the case of *Jno. D. Park & Sons* v. *Hartman*, 153 F. R. 24. That case is pending, undecided, in the Supreme Court. The complainant's very learned counsel was the counsel for Hartman in that case and both systems of contracts are most probably the fruit of his acknowledged skill in respect to this class of business ar-
35 rangements. No difference whatever is suggested between the system of contracts considered in that case and those here presented except, it is claimed, that the agreement with jobbers and wholesale dealers here involved is one of bailment or agency and not one of sale as in the Hartman case. If this were admitted, it does not, in our judgment, operate to legalize the "system" of which that agreement is but one part. The effect of that contract with jobbers, whether it be regarded as one of sale or of agency, is to restrain jobbers from selling to any save retailers licensed by complainant and to restrain retailers from selling for resale to any save those licensed to buy or to persons who buy for consumption only, and to none, by either jobber or retailer, except at a price imposed by the manufacturer. The confessed object of this plan or system is to obtain a price to the jobber and to the retailer uneffected by any competition between them. The scheme is one to enhance or maintain prices by eliminating all possibility of competing rates between either jobbers or retailers and is quite as effectual in its results as if the contract with the jobber was plainly one of sale.

But we are not disposed to concede that the contracts with jobbers are contracts of bailment. There are too many features which seem inconsistent with a mere agency or commission agreement. All the responsibility of an owner seems cast upon the so-called consignee. He is not given the right to return goods unsold, that can be done only upon the cancellation of the contract and demand for return. The retention of title for the security of the price would after all make the contract one of conditional sale and the jobber would still be the general owner and responsible as such. Curiously enough the actual payment of the price at which the consignment is billed is not to affect the title, it is still under the contract to remain with the so-called consignor. Yet the heavy inducement of five per cent, upon a very close class of goods is held out to induce a payment

advance of sales. It is difficult to believe, whatever the technical lation of the parties under such an agreement and whatever the belief each may have had as to his relation to the other, that such jobbers were not in fact and law the general owners of goods so "consigned" and engaged in selling for themselves nd not as the mere agents, *del credere* or otherwise, of the com-lainant. The scheme seems to be an effort to disguise the wholesale ealers in the mask of agency upon the theory that in that character ne link in the system for the suppression of the "cut rate" busi-ess might be regarded as valid. Hardly any two contracts raising ne question of sale or agency are so near alike as to make an opin-on construing one an authority in another. It matters little what ne parties call such agreements. Whether the result is a sale or an gency must depend upon the meaning and intent of the instru-ient as a whole. Looking at this agreement thus, we think the obber must be regarded as the general owner and engaged in selling or himself and not as a mere agent of another. True, he must sell, f this system of doing business is valid, and enforcible, as he obli-ates himself to do, but nevertheless he is selling for himself and pon his own account and risk. *Coweta Fertilizer Co.* v. *Brown,* ecided at this term and cases therein cited; Ex parte White, L. R. 870, 6 Ch. App. Cases: *Mack* v. *Drummond Tobacco Co.,* 48 Neb. 97; *Peoria Co.* v. *Lyons,* 153 Ill. 427; *Arbuckle* v. *Kirkpatrick,* 98 enn. 221.

This case must, after all, turn upon whether there is such identity f character between the statutory monopoly of articles made under valid patent or copyright and articles made according to some rivate formula as to exempt them from the principles which apply o contracts which tend to create a monopoly or restrain trade when he subject is an article not made under a patent or copyright or ecret formula. A distinction exists between the extent of the pro-ection granted by the patent and copyright statutes, and the copy-ight statute has been held "not to create the right to impose, by notice, a limitation at which a book shall be sold at retail by future urchasers, with whom there is no privity of contract." *Bobbs Merrill Co.* v. *Straus,* decided by the Supreme Court, June 1, 1908. This distinction has been drawn since the decision of the cases we refer to and since the decision of the Hartman case, above 37 referred to. There are decisions by most respectable courts which hold that articles, such as proprietary medicines, are utside of all rules and statutes which forbid contracts in restraint f trade, because they are made under a secret formula. Some, if ot most, of these decisions have been made in cases in which the Dr. Miles Medical Company has been a party. They are cited and ommented upon by this court in the case of *Jno. D. Park & Sons* v. *Hartman,* 153 F. R. 24, 34. They go upon the conceded fact that trade secret or medical formula is a monopoly until discovered by air means and will be protected against abuse by one who learns t under a contract limiting its use or in the confidence of an em-ployment. They do not observe any distinction between the neces-sary monopoly of the secret itself and the unnecessary monopoly of the articles made according to the secret process and offered for

sale and resale to the consuming public. Neither do those decisions recognize any distinction between the statutory monopoly accorded to articles protected by a patent or copyright and those made under such private formulas. The argument in support of this result is epitomized in all the cases referred to but may be seen in full in the opinion of Colt, Circuit Judge, in the case styled *Dr. Miles Medical Co.*, v. *Jaynes Drug Co.*, 149 F. R. 838. The same argument was presented by the counsel now representing the Dr. Miles Medical Company in the case decided by this court of *Jno. D. Park & Sons Co.* v. *Hartman*, 153 F. R. 24, and again presented with elaboration in the present case. In the case referred to, we reached with unanimity the conclusion that no legal, economic or moral reason existed for regarding contracts in respect to the vast and ever increasing commerce in proprietary medicines as either outside of the mischief intended to be remedied by the federal statute against monopolies or the rules of the common law, or within the statutory protection afforded by the patent and copyright statutes. Any other conclusion would be to sanction a monopoly in that class of goods vastly more far reaching than the monopoly extended upon high grounds of public policy to the inventor. The statutory monopoly has a limitation of a few years. To obtain it the inventor must put on record his invention. At the end of the term the
38 public will be free to employ the discovery without the burden theretofore imposed as a compensation to the inventor. Not so with the monopoly asked for by those who control the enormous proprietary trade of this country. Their monopoly will go on forever and, if there be merit in their formula, they may not only preserve it through all time but continue to restrain prices and prevent competition in the sale of the product. It is said, that the proprietor of such a secret remedy need never communicate his formula. Concede this. To say that he need never compound his medicine and that if he does, he need not sell it unless he chooses, is undoubtedly true. But as much may be said about any article which the producer may choose to make or not to make, sell or not sell, as he wills. So much pertains inherently to the natural freedom of man in respect to his own actions. But if he elects to make and sell a product according to his formula, a public interest is affected if he be permitted to restrain freedom of trade in the article when it has once passed under the dominion of a buyer. A free right of alienation is an incident to the general right of property in articles which pass from hand to hand in the commerce of the world. Coke on Littleton, Sec. 360. The mere fact that one article or class of articles is made under an unknown and private formula and another class is not, is an undeniable fact which may serve for some purposes to differentiate them. But that single fact does not afford an economic reason, and still less a legal reason, for saying that it operates to exempt such articles from rules against unlawful restraints of trade.

We need not repeat the argument by which we reached the conclusion that the system of contracts which Hartman sought to enforce through the injuctive power of a court of equity was obnox-

ious not only to the statute of Congress against restraints and monopolies in respect of interstate trade but inimical also to the reasonable restraints which at common law may be imposed as ancillary to a principal contract. All that we said in respect to the Hartman system is applicable here. The case falls directly within the reasoning and decision of that case in respect to every
39 aspect of the question and the decree sustaining the demurrer interposed by the appellees must be affirmed.

"Consignment Contract—Wholesale.

The Dr. Miles Medical Company.

This agreement made by and between the Dr. Miles Medical Company, a corporation, of Elkhart, Indiana, hereinafter referred to as the proprietor and —— ——, hereinafter referred to as the consignee, witnesseth:

That the said proprietor hereby appoints said consignee one of its wholesale distributing agents, and agrees to consign to such consignee for sale for the account of said proprietor such goods of its manufacture as the proprietor may deem necessary, the title thereto and property therein to be and remain in the proprietor absolutely until sold under and in accordance with the provisions hereof, and all unsold goods to be immediately returned to said proprietor on demand and the cancellation of this agreement. Said goods to be invoiced to consignee at the following prices:

Medicines, of which the retail price is $1.00; $8.00 per dozen.

Medicines (if any) of which the retail price is 50 cents; $4.00 per dozen.

Medicines, of which the retail price is 25 cents; $2.00 per dozen.

Freight on all orders, the invoice price of which amounts to $100.00 or more, to be prepaid by the proprietor; otherwise, freight to be paid by consignee.

Said consignee agrees to confine the sale of all goods and products of the said proprietor strictly to and to sell only to the designated retail agents of said proprietor as specified in lists of such retail agents furnished by said proprietor and alterable at the will of said proprietor, and to faithfully and promptly account and pay to the proprietor the proceeds of all sales, after deducting as full compensation for all services, charges and disbursements a commission of ten per cent of the invoice value, and a further commission of five per cent on the net amount of each consignment, after deducting the said ten per cent commission, on all advances on account remitted within ten days from date of any consignment, it being agreed between the parties hereto that such advances shall in no manner affect the title to such goods, which title shall remain in the proprietor as if no such advances had been made; provided that such advances shall be repaid to said consignee should the said proprietor terminate this agreement and the return of any unsold goods on which advances have been made. Said consignee guarantees the payment for all goods sold under this agreement and agrees to render a full account

and remit the net proceeds on the first day of each month of and for the sales of the month preceding. Failure to make such accounting and remittance within ten days from the first of each month shall render the whole account payable and subject to draft, but the proceeds of such draft shall not affect the title of any unsold goods, which shall remain in the proprietor until actually sold, as herein provided.

It is further agreed that the consignee shall furnish the proprietor from time to time upon demand full statements of the stock of goods of the proprietor on hand on any date specified and that a failure to furnish such statements within ten days from date of such demand shall be a sufficient cause for the cancellation of this agreement, and a demand for the return of the consigned goods.

40 It is further agreed that the proprietor will cause each retail package of its goods to be identified by a number and said consignee hereby agrees to furnish the said proprietor full reports upon proper cards or blanks furnished by said proprietor of the disposition of each dozen or fraction of such goods by means of the identifying numbers, specifying the names and addresses of the retail agents to whom such goods have been delivered and the dates of such delivery, and to send such reports to said proprietor at least semi-monthly, and at any other time on the request of said proprietor.

It is understood and agreed between the parties hereto that the commissions herein specified shall not be considered as earned by said consignee upon any goods of said proprietor which shall have been delivered to dealers not authorized agents of said proprietor, as per list of such agents, or upon any goods whose disposition by said consignee shall not have been properly reported as herein provided, or sold at prices less than the prices authorized, and that said consignee shall not credit any such commissions when making remittances on consignment account provided notice has been given by said proprietor that such commissions are unearned; and that if such unearned commissions have been deducted by said consignee in making advance payments or monthly remittances on account they shall be charged back to said consignee and credited and paid to said proprietor. It is understood that violation or non-observance of any provision hereof by the consignee shall make this agreement terminable and all unsold goods returnable at the option of the proprietor.

It is agreed that the goods of said proprietor shall be sold by said consignee only to the said retail or wholesale agents of said proprietor, as per list furnished, at not less than the following prices, to-wit:

Medicines, of which the retail price is $1.00; $8.00 per dozen.

Medicines (if any), of which the retail price is 50 cents; $4.00 per dozen.

Medicines, of which the retail price is 25 cents; $2.00 per dozen.

Provided, that said consignee may allow a cash discount not exceeding one per cent, if paid within ten days from date of invoice, and that when sales at one time and at one invoice, amount to $15.00 or more, the said consignee may allow three per cent trade discount, and if said purchase amounts to $50.00 or more, five per cent trade discount, all without cost to the proprietor, and if such $50.00 quan-

tity shall be shipped direct to the retail purchaser from the laboratory of the said proprietor, on the order from the said wholesale distributing agent, freight will be prepaid by the proprietor, but not otherwise.

This contract will take effect when the original, duly signed by the consignee, has been received and accepted by the Dr. Miles Medical Company, at Elkhart, Indiana.

Done under our hands.....A. D., 1907.
(Fill in date on above line.)
THE DR. MILES MEDICAL COMPANY.
.....

Wholesale dealer: Sign your name on above line. Original return in enclosed envelope.

Retail Agency Contract.

The Dr. Miles Medical Company.

This agreement between the Dr. Miles Medical Company of Elkhart, Indiana, and..... of .....
41 Retailers named on above line. Town. State.
hereinafter referred to as the retail agent, witnesseth:

Appointed Agent.

The said Dr. Miles Medical Company hereby appoints said retail dealer as one of the retail distributing agents of its proprietary medicines and agrees that said retail agent may purchase the proprietary medicines manufactured by said Dr. Miles Medical Company (each retail package of which the said company will cause to be identified by a number) at the following prices, to-wit:

Wholesale Prices.

Medicines, of which the retail price is $1.00; $8.00 per dozen.
Medicines, of which the retail price is 50 cents; $4.00 per dozen.
Medicines, of which the retail price is 25 cents; $2.00 per dozen.

Quantity Discounts.

Provided that when purchasers at one time and on one invoice amount to $15.00 (or more), wholesale distributing agents are authorized to allow three per cent trade discount; if such purchase amounts to $50.00 (or more) five per cent trade discount will be allowed, and if such $50.00 quantity be shipped direct to the purchaser from the laboratory of said Dr. Miles Medical Company for the account *at* such wholesale agent, freight will be prepaid, but not otherwise.

Full Price.

In consideration whereof said retail agent agrees in no case to sell or furnish the said proprietary medicines to any person, firm or corporation whatsoever, at less than the full retail price as printed on the packages, without reduction for quantity; and said retail agent further agrees not to sell the said proprietary medicines at any price to wholesale or retail dealers not accredited agents of the Dr. Miles Medical Company.

Violation.

It is further agreed between the parties hereto that the giving of any article of value, or the making of any concession by means of trading stamps, cash register coupons, or otherwise, for the purpose of reducing the price above agreed upon shall be considered a violation of this agreement, and further it is agreed between the parties hereto that the Dr. Miles Medical Company will sustain damage in the sum of twenty-five dollars ($25.00) for each violation of any provision of this agreement, it being otherwise impossible to fix the measure of damage.

This contract will take effect when a duplicate thereof, duly signed by the retail agent, has been received and approved by The Dr. Miles Medical Company, at its office at Elkhart, Indiana.

Done under our hands.....A. D., 1907.
(Fill in date on above line.)
THE DR. MILES MEDICAL COMPANY.
.....

Retail dealer, sign your name on above line in ink.

To retail dealer:

Paste printed label, giving name and address, that your name may be correctly listed.

Duplicate. Keep for reference.

42 United States Circuit Court of Appeals for the Sixth Circuit.

I, Frank O. Loveland, Clerk of the United States Circuit Court of Appeals for the Sixth Circuit, do hereby certify that the foregoing is a true and correct copy of the record and proceedings in the case of Dr. Miles Medical Company vs. John D. Park & Sons Company No. 1797, as the same remains upon the files and records of said United States Circuit Court of Appeals for the Sixth Circuit, and of the whole thereof.

In testimony whereof, I have hereunto subscribed my name, and affixed the seal of said Court, at the City of Cincinnati, Ohio, this 10th day of September A. D. 1908.

[Seal United States Circuit Court of Appeals, Sixth Circuit.]

FRANK O. LOVELAND,
Clerk of the United States Circuit Court
of Appeals for the Sixth Circuit.

43 UNITED STATES OF AMERICA, *ss:*

[Seal of the Supreme Court of the United States.]

The President of the United States of America to the Honorable the Judges of the United States Circuit Court of Appeals for the Sixth Circuit, Greeting:

Being informed that there is now pending before you a suit in which Dr. Miles Medical Company is Appellant and John Park & Sons Company is Appellee which suit was removed into the said Circuit Court of Appeals by virtue of an appeal from the Circuit Court of the United States for the Eastern District of Kentucky, and we, being willing for certain reasons that the said cause and the record and proceedings therein should be certified by the said Circuit Court of Appeals and removed into the Supreme Court of the
44 United States, do hereby command you that you send without delay to the said Supreme Court, as aforesaid, the record and proceedings in said cause, so that the said Supreme Court may act thereon as of right and according to law ought to be done.

Witness the Honorable Melville W. Fuller, Chief Justice of the United States, the 21st day of October, in the year of our Lord one thousand nine hundred and eight.

JAMES H. McKENNEY,
Clerk of the Supreme Court of the United States.

United States Circuit Court of Appeals for the Sixth Circuit, *ss:*

I, Frank O. Loveland, Clerk of the United States Circuit Court of Appeals for the Sixth Circuit, do hereby certify that the transcript of the record of the proceedings of this Court, in the within entitled case, heretofore certified by me for filing in the Supreme Court of the United States, was correct and complete as the same then appeared in this Court.

In pursuance of the command of the foregoing Writ of Certiorari, I now hereby certify that on the 24th day of October, A. D., 1908, there was filed in my office a stipulation in the above entitled case, in the following words, to-wit:

United States Circuit Court of Appeals for the Sixth Circuit.

DR. MILES MEDICAL COMPANY, Appellant,
v.
JOHN D. PARK & SONS COMPANY, Appellee.

It is hereby stipulated that the transcript already filed in the Clerk's Office of the Supreme Court of the United States, with the petition for the writ of certiorari, be taken as a return to said writ dated the 21st day of October, A. D., 1908.

(Signed) FRANK F. REED,
Counsel for Dr. Miles Medical Company, Appellant.
(Signed) WILLIAM J. SHRODER,
Counsel for John D. Park & Sons Company, Appellee.

Dated, the 24th day of October, A. D., 1908.

I further certify that the above is a true and correct copy of said stipulation and of the whole thereof.

Witness my official seal, signature, and the seal of said Court of Appeals at the City of Cincinnati, in said Circuit, this 24th day of October, A. D., 1908.

[Seal United States Circuit Court of Appeals, Sixth Circuit.]

FRANK O. LOVELAND,
Clerk of the United States Circuit Court
of Appeals for the Sixth Circuit.

45 [Endorsed:] File No. 21,343. Supreme Court of the United States. No. 547, October Term, 1908. Dr. Miles Medical Company, vs. John D. Park & Sons Company. Writ of Certiorari. Filed Oct. 24, 1908. Frank O. Loveland, Clerk.

46 [Endorsed:] File No. 21,343. Supreme Court U. S., October Term, 1909. Term No. 259. Dr. Miles Medical Co., petitioner, vs. John D. Park & Sons Company. Writ of certiorari & return. Filed Oct. 26th, 1908.

18

Office Supreme Court, U. S.
FILED.
SEP 28 1909
JAMES H. McKENNEY,
Clerk.

IN THE

Supreme Court of the United States.

OCTOBER TERM, A. D. 1908.

Dr. MILES MEDICAL COMPANY,
Petitioner,
vs.
JOHN D. PARK & SONS COMPANY,
Respondent.

No. 7[illegible]

PETITION FOR WRIT OF CERTIORARI.

FRANK F. REED and
EDWARD S. ROGERS,
Of Counsel for Petitioner.

GUNTHORP-WARREN PRINTING CO., CHICAGO

IN THE

Supreme Court of the United States.

OCTOBER TERM, A. D. 1908.

Dr. MILES MEDICAL COMPANY,
Petitioner,

vs.

JOHN D. PARK & SONS COMPANY,
Respondent.

To the Honorable the Chief Justice and the Associate Justices of the Supreme Court of the United States:

Your petitioner, Dr. Miles Medical Company, of Elkhart, Indiana, respectfully represents:

(1) That on the 6th day of November, A. D. 1907, the petitioner, who is a corporation organized under the laws of the State of Indiana, and is a citizen of the State of Indiana, filed in the Circuit Court of the United States for the Eastern District of Kentucky a duly verified bill in equity against John D. Park & Sons Company, a corporation organized under the laws of Kentucky, and a citizen of the State of Kentucky, and a resident and inhabitant of the Eastern District of Kentucky, respondent, asking for an injunction and accounting of profits and assessment of

damages, in which suit the petitioner stated that the petitioner was engaged at Elkhart, Indiana, in the manufacture of certain proprietary medicines and remedies, invented, discovered and compounded by Dr. Franklin Miles, a physician by profession; that said Miles invented, discovered and compounded certain valuable and meritorious medicines and remedies constituting an efficacious system of medicines and remedies, and transferred all his rights therein to petitioner; that such medicines were and always had been made and compounded under secret processes, recipes and formulas, invariably kept and preserved as trade secrets and known only to the inventor and petitioner and its confidential employees; that arbitrary and distinctive trade names and trade marks had been given to and used upon and in connection with said medicines, and the medicines always put up and sold in peculiar and distinctive bottles, wrappers and labels; that the medicines are meritorious and in the manufacture, putting up and sale thereof the food and drug laws have been complied with; that such medicines had been at petitioner's sole expense and cost extensively advertised and exploited under the trade names, marks and get-up employed; that as the result of the meritorious character and extensive advertisement and exploitation of the medicines a large trade therein and valuable demand and good will therefor had been created and existed throughout the United States; that upon the introduction of each medicine the retail price to the consumer therefor had been fixed by petitioner and such price placed upon the containing wrapper and advertised and maintained

as the retail price thereof; that petitioner did not sell at retail, but uniformly sold to jobbers or wholesalers, and such wholesalers or jobbers in turn to retail drug dealers; that in the advertisements of the medicines prospective purchasers and users were advised and informed that the medicines were on sale at retail drug stores; that the medicines have been and are kept in stock at retail stores and sold to users by such retail druggists; that after the establishment of such markets, demand and good will which existed in retail drug stores and recently the demand for and the reputation of the medicines had induced department and cut-rate stores to procure the medicines and announce and sell such medicines at less than the retail prices fixed and advertised by petitioner, not for the purpose of obtaining the customary prices therefor and realizing a pecuniary profit therefrom, but for the purpose of attracting and inducing custom and trade for other articles; that this method has injuriously affected the reputation and diminished the demand for and the sales of petitioner's medicines; that in order to protect petitioner's trade and business in such medicines, petitioner has established a system of contracts and sales, whereby petitioner stamps each package of medicines with an identifying serial number and keeps a record thereof and enters into separate written contracts with the individual jobbers or wholesalers, consigning thereunder the medicines to such jobbers at fixed and uniform values, and appointing such jobbers wholesale distributing agents and authorizing such jobbers and the wholesalers as agents to sell such proprietary medicines and remedies of

petitioner to the duly accredited retail agents at prices fixed in such contracts; that in such agency contracts it is also provided that such wholesaler or jobber shall furnish reports by serial numbers, which are placed on cards supplied in connection with the medicines, of the names and addresses of all purchasers from such wholesale agents; that such consignment contracts provide that the title to all of the preparations so consigned remain absolutely in the petitioner until sold in accordance with the provisions of the contract; that consignee confine the sale of all the petitioner's products to designated retail agents of petitioner, as specified in lists of such retail agents furnished by petitioner at designated prices and shall not sell or supply to others not so designated, and further account to and pay the proceeds of all sales after deducting as full compensation for services, charges and disbursements a commission of ten per cent. of the invoice value, and a further commission of five per cent. on the net amount of each consignment after deducting the said ten per cent. commission, on all advances remitted within ten days from date of consignment; that any advances made shall in no manner affect the title of the goods which shall remain in petitioner as if no advances had been made; that all unsold goods be returned and the consignee guarantees the payment for all goods sold under the agreement and also agrees to render a full account and to remit the net proceeds on the first day of each month of and for the sales of the month preceding; that consignee furnish to petitioner from time to time statements of stock; that petitioner agrees to cause each retail package of its goods to

be identified by number and the consignee agrees to furnish reports as to the disposition of such numbered goods and that petitioner's preparations shall be sold by the consignee only to the designated or listed wholesale or retail dealers who are styled agents of the petitioner, and at not less than prices specified. That petitioner by contracts in writing with retail druggists appoints such retail dealers retail distributers of such proprietary medicines and authorizes such retailers to purchase petitioner's proprietary medicines at fixed prices from authorized wholesale agents of petitioner and the retailers agree with petitioner not to sell to dealers not authorized in writing by petitioner to purchase or deal in petitioner's proprietary remedies, or to any person at more than the standard or less than prices enumerated, and to stamp or write at the time of sale such retail dealer's name and address upon each package sold; that petitioner stamps each package of its medicines with an identifying serial number, places cards containing corresponding serial numbers in each case containing said medicines, and requires the wholesale agents to report the names and addresses of retail dealers purchasing upon such card; that petitioner furnishes to each wholesale agent of petitioner a list of wholesale agents and retail dealers who have executed such contracts with petitioner and who are authorized to deal in petitioner's medicines; that said system, known as the direct contract wholesale agency plan, has been generally adopted in reference to petitioner's remedies by wholesale and retail druggists throughout the United States and is in force throughout the United

States; that the prices so fixed are reasonable and uniform, and petitioner's medicines are supplied without discrimination at uniform prices on said terms to all dealers who execute and observe such contracts; that said system was adopted and intended solely to prevent price cutting, demoralization to trade and damage to trade and business of the petitioner in the manufacture and sale of petitioner's proprietary medicines and to protect and conserve the trade and good will therein; that the same is reasonable and proper and has benefited the business and increased the sales of petitioner's medicines, and that the system has been established at large expense and is of great value to petitioner and has operated to preserve and maintain the business, good will and sale of petitioner's remedies; that petitioner's medicines contain upon the labels lists of ailments for which they are intended as remedies and directions for use, and the trade marks and trade names and the serial numbers by which such proprietary medicines of petitioner can be identified and traced; that retail dealers customarily sell and buyers desire the proprietary medicines of petitioner with the labels, directions and lists of ailments unmutilated and legible, and that such lists of ailments and directions for use are necessary and should accompany the remedies to the user in order that the same may be used properly and advantageously.

That respondent, John D. Park Sons Company, has been and is still advised of all the facts set forth and of the establishment of said system of sales by petitioner, and with such knowledge and without the

execution of a proper contract with the petitioner, respondent has by fraud, conspiracy, misrepresentation and in violation of such wholesale agency and retail sales contracts established and in force between petitioner and the wholesale agents and retail dealers of the medicines of petitioner, obtained petitioner's medicines from such wholesale agents and retail dealers, mutilated and defaced the labels and wrappers, destroyed the serial numbers, trade-marks, trade names, lists of ailments and directions for use, and advertised and sold and threatened to continue to advertise and sell petitioner's medicines so obtained and defaced at cut prices to retail dealers not entitled to deal therein and not under contract with petitioner, which said retail dealers in turn advertise and sell the proprietary medicines of petitioner at cut prices and in such mutilated and defaced form; that such conduct on the part of respondent has injured the reputation of and demand for petitioner's medicines, and if continued as threatened will inflict further irreparable injury on petitioner's trade and system of sales and utterly destroy and ruin both the reputation, trade and good will of petitioner's remedies and the system of sales and contracts established by petitioner in relation thereto; that the value of petitioner's trade and good will and of the established system of sales and the damage to each by respondent's conduct exceeds, exclusive of interest and costs, the sum and value of $5,000, and that petitioner prayed for an injunction restraining such wrongful conduct on the part of such respondent.

(2) Petitioner further states that after due service of process in said suit upon respondent and entry of appearance, respondent on the 18th day of November, A. D. 1907, filed in due form of law a general demurrer to said bill of complaint for want of equity, and a special demurrer to that portion thereof asking for an injunction restraining the mutilation of labels and wrappers; that after oral argument thereon on February 28, 1908, said demurrer was by the Hon. Andrew M. J. Cochran, Judge of said court, sustained, and petitioner electing to stand and abide by its said bill of complaint, the same was dismissed for want of equity at petitioner's costs upon the authority of the opinion of the Circuit Court of Appeals of the Sixth Circuit in the case of *Park & Sons Co.* v. *Hartman,* decided May 5, 1907, and reported 153 F. R., 24, in which suit this court on May 27, 1907, granted a writ of certiorari to this court. A copy of said opinion in said suit is annexed as Exhibit L., and an appeal herein to the Circuit Court of Appeals of the Sixth Circuit was duly taken and perfected and briefed and came on for hearing and argument and was argued orally upon the 5th day of May, A. D. 1908, and taken under advisement; and on the 2nd day of June, A. D. 1908, the said Circuit Court of Appeals affirmed the said decree of dismissal of said bill of complaint with costs and gave a written opinion therein, but the mandate therein has not yet issued and that said suit is still pending in said Circuit Court of Appeals.

(3) That the questions presented by said bill of complaint and argued and considered by the said Cir-

cuit Court and Circuit Court of Appeals were whether said system of contracts by said petitioner established was valid or invalid as in restraint of trade, and whether the conduct of respondent in obtaining petitioner's medicines with notice thereof from the agents and vendees of petitioner by the means employed, mutilating the labels and then advertising and selling at cut prices, was inequitable and enjoinable, and that in and by its opinion said Circuit Court held said system of contracts void and the conduct of the respondent charged in said bill of complaint unenjoinable and said Circuit Court of Appeals held that said system of contracts was invalid and unlawful and the said contracts unenforceable and void because in restraint of trade both at common law and under the statutes of the United States, passed on the 2nd day of July, A. D. 1890, and known as the Anti-Trust Act; and also held that the said asserted agency contracts with the wholesale druggists were in effect not agency contracts but contracts of sale, but whether agency or sale contracts were void as in restraint of trade and that the case was in all respects ruled by the former decision of the court in *John D. Park & Sons* v. *Samuel B. Hartman*, decided March 5, 1907, and reported 153 F. R., 24, in and from which decision a writ of certiorari was allowed by this court May 27, 1907, which is still pending and undisposed of. (206 U. S., 562.)

(4) That annexed hereto and made a part hereof is a true, full, complete and duly certified copy of the record of said suit in said Circuit Court of Appeals, including the opinion thereof, upon affirmance of said

Circuit Court order of dismissal, and the same is marked Exhibit A and made part and parcel hereof.

(5) Petitioner further states that the said Circuit Court of Appeals in and by its said decision and opinion considered, determined and adjudicated upon the said question of the validity or invalidity of the said system of contracts so established and sought to be enforced by petitioner in said proceeding, and held the same illegal, unlawful, unenforceable and not a legal and proper basis of relief, because the same were in restraint of trade, both in common law and under the said statute of the United States passed the 2nd day of July, A. D. 1890, and entitled, "An Act to protect trade and commerce against unlawful restraints and monopolies," holding that said system of contracts and sales so established by petitioner in respect to petitioner's proprietary remedies and medicines was not excepted from the rules of law holding contracts in restraint of trade invalid because the said system of contracts and sales concerned only the remedies of petitioner made under secret processes, recipes and formulas kept and conserved as trade secrets, and that even if the said contracts with wholesale dealers were agency contracts and not contracts of sale said system and plan were still illegal and in restraint of trade, but that said wholesale contracts were not agency contracts but on the contrary were contracts of sale and that the system was legally identical with the system condemned in the former decision of the court in *Park & Sons Co.* v. *Hartman* (Exhibit M) and reiterated and referred to that opinion as in all respects governing the case, which opinion held a sys-

tem in which the wholesale contracts were in terms contracts of sale and which was in other respects similar to the contract plan of petitioner, invalid and illegal because in restraint of trade and common law and by statute. A copy of said last opinion of said Circuit Court of Appeals in this suit is annexed hereto as Exhibit M, and made part hereof. And further held herein that said system of sales and contracts was not a reasonable protection to the property, trade, good will and rights of petitioner, and also held that relief would not be given petitioner as against a third party not under contract with the petitioner for procuring or inducing a violation of such system of contracts and sales by wholesale and retail druggists executing such contracts with petitioner, when induced by fraud, misrepresentation, collusion or conspiracy, and resulting in obtaining the proprietary medicines of petitioner in violation of the terms, conditions and restrictions of such contracts, and that the conduct of respondent in obtaining petitioner's proprietary medicines in violation of the provisions of such contracts was not a violation of any legal right possessed by petitioner, and further that petitioner was not entitled to relief against respondent in obtaining such proprietary remedies of petitioner because not under any contract relation with petitioner and because said restrictions did not accompany and pass with the said proprietary medicines of petitioner or prevent the obtaining thereof from petitioner's contractees in violation of the terms of the contracts.

(6) Petitioner further shows that the said system of contract and sales was established solely for the

purpose of protecting the sales, good will, trade and reputation of petitioner's proprietary medicines and remedies; and in order to prevent the loss of such business, trade, good will and reputation created and established therefor; that in inducing, establishing, extending and enforcing said system of sales and contracts, petitioner has expended the sum of about $40,000; that the benefit to the business, trade, good will and reputation of petitioner's proprietary medicines resulting from the establishment and maintenance of said system of said contracts and sales has amounted to many thousands of dollars, and the maintenance and continuance of such system of sales amounts to many thousands of dollars in value to petitioner, and that various other proprietors and manufacturers of proprietary medicines manufactured under secret processes, recipes and formulas, and invented, discovered, trade-marked, trade dressed, exploited, advertised established, and sold in substantially the same manner as petitioner's proprietary medicines, have independently and without collusion with petitioner adopted and established individually and independently systems of sales and contracts therefor similar in principle and method with the said system of sales and contracts so adopted and established by petitioner; that the said efforts of petitioner and of said other proprietors and manufacturers of proprietary medicines and remedies in establishing and protecting said systems, have resulted in much litigation in various courts, which said litigation is in most cases still pending and that the rulings of all of the courts in which said questions have been presented, except said Circuit Court of Appeals of said Sixth Circuit, have been to sustain and hold

legal such systems of contracts and sales and to prevent the obtaining of such proprietary medicines in violation of such systems of contract and sales, and that the following is a summary of said pending litigation and the rulings and holdings therein to this date;

(*a*) Samuel B. Hartman on the 29th of April, 1905, filed in the United States Circuit Court for the District of Kansas his bill in equity against Frank Hobart, in which the same system of contracts and sales set forth in the suit of *John D. Park & Sons Co.* v. *Samuel B. Hartman, supra,* was recited, and substantially the same wrongful conduct in obtaining, mutilating and selling the complainant's proprietary remedies set forth, and the same relief by injunction sought against the continuance of said wrongful conduct. A demurrer was filed to said suit, and duly argued and submitted upon briefs, in which the same questions as to the validity of said systems of contracts at the common law and under said statutes, and of the power of a court of equity to grant relief by injunction against procuring violation of contract and obtaining the complainant's remedies in violation of the conditions of such contracts, were raised, discussed and considered by the court; that thereupon upon the 12th day of June, A. D. 1906, the Hon. John C. Pollock, the judge of said court, filed a memorandum opinion sustaining the validity of said system of contracts, awarding the relief prayed and overruling said demurrer, a copy of which opinion is herewith annexed and marked Exhibit B and made a part hereof; that in said suit by consent subsequently a decree was entered for complainant.

(*b*) That on the 27th of April, A. D. 1905, Samuel B. Hartman filed in the United States Circuit Court for the District of Minnesota, Fourth Division, his bill of complaint against one W. J. Hughes, in which the same relief on the same basis was sought, and to which bill of complaint a demurrer was filed by the defendant for want of equity, and on the 14th day of July, A. D. 1905, a motion for an injunction and the demurrer were argued before and considered by the Hon. William Lochren, judge of said court, and that after elaborate oral argument said demurrer to said bill of complaint was overruled, and the said preliminary injunction granted. A copy of said order is annexed hereto and marked Exhibit C and made part hereof. Subsequently, by consent of the parties, the said order for preliminary injunction was made permanent and final decree entered therein.

(c) Wells & Richardson Company of Burlington, Vermont, proprietors and manufacturers of various proprietary medicines and remedies made under secret processes, recipes and formulas, having established a system of contracts and sales therefor, substantially identical with the system of sales and contracts set forth by said Samuel B. Hartman in said suit of *John D. Park & Sons Co.* v. *Hartman* (*supra*), instituted suit in the United States Circuit Court for the Eastern District of New York against Abraham Abrahams and others, in which precisely the same relief was sought as in this suit of petitioner, and upon the same basis though the said contracts with wholesalers were contracts of sale and not of consignment, and upon motion for preliminary injunction, which was argued orally and

taken under advisement and considered by the court upon briefs, in which practically the same questions as in the present case were raised, discussed and considered, the Hon. Edward B. Thomas on the 20th of April, A. D. 1906, rendered an opinion sustaining the validity of said system of contracts, and granting the relief prayed for, which said opinion is annexed hereto marked Exhibit "D" and made a part hereof. Said opinion is reported under the title of *Wells & Richardson* v. *Abrahams*, and reported in 146 Fed. Rep., p. 190. A copy of the order for said preliminary injunction is annexed hereto and marked Exhibit E, and made a part hereof.

(*d*) An appeal was taken from said order for said preliminary injunction to the said Circuit Court of Appeals of the Second Circuit, and duly briefed, argued, submitted and considered by the said Circuit Court of Appeals, the Hon. William J. Wallace, Alfred C. Coxe and William K. Townsend, Circuit Judges, sitting in said case; and thereupon, on the 19th day of November, A. D. 1906, the said order for said preliminary injunction was affirmed. A copy of the opinion of affirmance is hereto annexed marked Exhibit F, and made a part hereof. Said cause is still pending in said Circuit Court for the Eastern District of New York and not further disposed of.

(*e*) Petitioner having adopted originally a system of contracts and sales identical with the system of contracts and sales adopted by the said Samuel B. Hartman aforesaid, in protecting and enforcing the same, filed on the 15th of April, A. D. 1905, its bill of complaint in the United States Circuit Court for the District of Massachusetts against the Jaynes Drug Com-

pany of Boston, Massachusetts. In said bill of complaint the same relief upon precisely the same basis as set forth in the proceeding instituted by said Samuel B. Hartman in his said suit against John D. Park & Sons Co., was sought. A general demurrer for want of equity was filed to said complaint. The said demurrer was argued before the Hon. Le Baron B. Colt, Circuit Judge, taken under advisement and briefs filed by both parties therein. The question of the validity or invalidity of said system of contracts and sales both in restraint of trade and at common law and under the said statute was argued and considered. Said court on the 12th day of December, A. D. 1906, overruled said demurrer and held said system of contracts and sales valid and enforcible. A copy of said opinion is hereto annexed and marked Exhibit G and made a part hereof. Said cause is reported under the name of *Dr. Miles Medical Company* v. *Jayne Drug Company,* 149 Fed. Rep., 839. Said suit is still pending and undisposed of.

(*f*) In the United States Circuit Court of Appeals for the Northern Division of the Northern District of Illinois, Samuel B. Hartman, on May 12, A. D. 1905, filed a bill of complaint against one Isaac Platt, setting forth his system of contracts and sales, and seeking an injunction against said Isaac Platt from obtaining or threatening to obtain petitioner's proprietary remedies in violation of such system. To said bill of complaint said Isaac Platt appeared and filed an answer, to various portions of which exceptions were filed by petitioner. Upon the argument and discussion of said exceptions the same question as to the validity of petitioner's system of contracts and sales

was presented, argued and discussed. Said system of contracts and sales was decided by the Hon. Christian C. Kohlsaat, Circuit Judge, before whom the same were argued and before whom the same were considered, to be valid and legal. A copy of said opinion of said court is annexed hereto and marked Exhibit H and made part hereof. Said opinion is reported under the name of *Hartman* v. *Platt,* 142 Fed. Rep., page 606. Said exceptions to said answer were sustained. Said suit is still pending and undisposed of. Similar suits by petitioner and the World's Medical Association against said defendant in the same court were disposed of in the same manner at the same time and are still pending.

(*g*) The Paris Medicine Company of St. Louis, Mo., a manufacturer of proprietary medicines, having adopted a system of contracts and sales in relation thereto, practically identical with that of said Samuel B. Hartman aforesaid, in the protection thereof filed in the United States Circuit Court for the Southern District of New York on the 3rd day of January, A. D. 1906, its certain bill of complaint against Hegeman & Co., in which the same relief, except as to mutilation of packages, and upon the same basis as in petitioner's present suit, was sought. A motion for preliminary injunction was made therein and duly noticed, argued, taken under advisement, and submitted upon briefs before the Hon. F. Henry Lacombe, and after consideration the motion for said injunction was granted on the 5th day of May, A. D. 1906, by the said judge. A copy of the opinion of said judge in granting said motion is annexed hereto and marked Exhibit I and made a part hereof. A copy of the order for

said preliminary injunction is annexed hereto and marked Exhibit J and made a part hereof. From said order granting preliminary injunction, an appeal was taken by said defendant in said suit, to the Circuit Court of Appeals for the Second Circuit. Said order of injunction was reversed upon the ground that the proofs did establish such connection of the defendant in the persuasion or fraud in obtaining the medicines as would warrant an injunction but the said Circuit Court of Appeals of the Second Circuit after having under consideration the opinion of the Circuit Court of Appeals of the Sixth Circuit in *John D. Park & Sons Co.* v. *Hartman, supra,* again unanimously sustained the validity of said plan or system and emphatically disagreed with said opinion. A copy of the oral opinion of said court is annexed and marked Exhibit M. Said suit is since pending and undisposed of.

(*h*) In a suit instituted by Loder against Jayne and others, in the United States Circuit Court for the Eastern District of Pennsylvania for the collection of treble damages for injury to trade by conspiracy and combination in violation of the provisions of the said Act of Congress of July 2, A. D. 1890, the question of the validity of the said systems of sales and contracts put in force by various proprietors of proprietary remedies and medicines was considered by the court, and in the instructions given in the trial of said cause before the Hon. James B. Holland, District Judge, said judge sustained the validity of such contracts when applied to and concerning only the product of the manufacturer and so instructed the jury. A verdict having been returned in favor of the plaintiff in said action upon the ground of a general conspiracy

or combination in violation of the terms of said statute, an appeal was taken to the United States Circuit Court of Appeals for the Third Circuit and the question of the validity of systems of contracts and sales identical with and similar in principle to said systems of contracts and sales of petitioner was presented, briefed, considered by the court, and the validity thereof sustained. A copy of said opinion of said Circuit Court of Appeals in said proceeding is annexed hereto and made a part hereof, being marked Exhibit K. Said opinion is reported under the style of *Loder* v. *Jayne*, 149 Fed. Rep., page 21.

(*i*) On the 15th day of May, A. D. 1906, the United States of America instituted suit in the United States Circuit Court for the District of Indiana against the National Association of Retail Druggists, and the National Wholesale Druggists Association, and various manufacturers of proprietary medicines and remedies, including your petitioner, wherein a combination and conspiracy in violation of the terms of said statute of July 2, A. D. 1890, of the United States, was charged, and wherein your petitioner was charged with violating said statute by the adoption and establishment of a system of contracts and sales, and wherein it is sought by injunction to restrain petitioner from enforcing its then system of contracts and sales and a mandatory injunction was sought against petitioner commanding him to release each and every wholesale and retail druggist under contract with petitioner under said system, and to cancel, annul and hold void said system and the contracts thereunder. A demurrer filed by petitioner to said bill of complaint has been

overruled by the Hon. John B. Anderson, Judge of said court, without opinion. Answers have been filed and the taking of proofs in said cause was set for the 7th day of May, 1907. Thereafter by consent a decree was entered therein enjoining the defendants in a certain manner and form but without determining the question of the validity of the system or plan mentioned.

(*j*) Similar decisions on like questions have been given in *Park & Sons Co.* v. *National Wholesale Druggists Association,* 175 N. Y., 1, and *Garst* v. *Harris,* 177 Mass., 72.

(*k*) Various other suits involving precisely and exactly the same questions on the same basis and asking for the same relief have been instituted by your petitioner in a number of Circuit Courts of the United States, especially in the Third and Sixth Circuits, and are still pending and undisposed of. Similar suits have also been instituted by the Paris Medicine Company, Wells & Richardson Company and other manufacturers of proprietary remedies and medicines, in various Federal and State courts throughout the United States, in which the same questions will arise, and in which the same relief upon the same basis will be asked and which suits are pending and undisposed of.

(*l*) Said Samuel B. Hartman in said suit of *John D. Park & Sons Co.* v. *Samuel B. Hartman,* decided March 5, 1907, presented on May 13, 1907, his petition for a writ of certiorari to this court and the same was on May 27, 1907, duly allowed. (See 206 U. S., 562.) In said proceeding the record has been duly filed

and printed and the same is now pending but petitioner is advised that the said Samuel B. Hartman has abandoned said system and that said proceeding now presents a moot question of law only and will therefore not probably be further prosecuted. The only material difference between the plan or system of said Samuel B. Hartman and the present plan of petitioner is in the form and effect of the wholesale contracts which in the former system are contracts of sale and in the latter contracts of consignment. Under the theory of the Circuit Court of Appeals of the Sixth Circuit said systems are identical in principle and effect. Said Hartman has however been made defendant in a suit for damages on the theory that said system adopted by him is illegal and in restraint of trade and is therefore interested in obtaining a final and authoritative decision as to its validity.

(7) The drug trade throughout the United States, both wholesale and retail, is directly and immediately concerned in the final adjustment, determination and settlement of the validity of said system of contracts and sales and of similar systems of contracts and sales adopted and put in force by various other proprietors in respect to their proprietary medicines and remedies.

The current of authority, both State and Federal, until the decisions of the said Court of Appeals of the Sixth Circuit, has been uniform in sustaining and enforcing such contracts and systems. Great uncertainty, confusion and doubt have arisen as the result of said decisions. Said proprietors and manufacturers and wholesale and retail drug dealers are desirous

of conforming to the statutes and laws of the land and of conducting their business and sales in conformity and not in violation of such statutes and laws. It is the almost uniform belief of such manufacturers, wholesale and retail dealers in proprietary medicines and remedies, that such systems of contracts and sales are legal, valid and enforcible. The volume of sales of proprietary remedies in the United States amounts to many million dollars annually and is a very important part of the drug trade, both wholesale and retail. It is earnestly desired by all interested in that trade to have the questions presented in this record decided once for all by the highest tribunal of the country in order that the uncertainty may cease and proprietors and wholesale and retail druggists conduct their trade and business in conformity with the statutes and laws of the land.

Petitioner shows unto your Honors that there is error in the said record of the said Circuit Court of Appeals in the said proceeding in this, to wit:

1. That said Circuit Court of Appeals erred in affirming the order and decree of the Circuit Court sustaining said demurrer to said bill of complaint and dismissing said bill of complaint for want of equity at complainant's costs.

2. That said Circuit Court of Appeals erred in affirming the dismissal of said suit for want of equity and in directing the dismissal of said suit at petitioner's cost.

3. That said Circuit Court of Appeals erred in holding and adjudging that said system of contracts

and sales of petitioner was invalid and illegal because in restraint of trade at common law.

4. That said Circuit Court of Appeals erred in holding and adjudging that said system of contract and sales was invalid and illegal in restraint of trade under the said statute of July 2, A. D. 1890.

5. That said Circuit Court of Appeals erred in holding that the said system of contracts was illegal, unenforceable and could not be made the basis of equitable relief.

6. Said Circuit Court of Appeals erred in holding said wholesale contracts of said system contracts of sale and not contracts of consignment.

7. That said Circuit Court of Appeals erred in holding and adjudging that said conduct of the said defendant in obtaining and procuring the proprietary medicines and remedies of the complainant in violation of the terms and conditions of said contracts was permissible and was not inequitable and violative of complainant's rights.

8. That said Circuit Court of Appeals erred in holding said system of contracts was not valid, legal and enforcible.

9. The said Circuit Court of Appeals erred in holding and adjudging that the obtaining of the proprietary remedies of the petitioner by respondent by the means set forth in said bill of complaint and in violation of the provisions and conditions of said contracts was not enjoinable.

WHEREFORE, your petitioner prays that a writ of

certiorari may be issued out of and under the seal of this court and directed to the United States Circuit Court of Appeals for the Sixth Circuit, commanding the said court to certify and send to this court on a day certain to be therein designated, a full and complete transcript of the record in all proceedings of the said Circuit Court of Appeals in the said case herein, entitled Dr. Miles Medical Company, Appellant, v. John D. Park & Sons, Appellee, Number 1797, to the end that the said case may be reviewed and determined by this court as provided in Section Six of the Act of Congress, entitled "An Act to establish Circuit Courts of Appeals and to define and regulate in certain cases the jurisdiction of the courts of the United States and for other purposes," approved March 3, 1891, or that your petitioner may have such other or further relief or remedy in the premises as to this court may seem appropriate and in conformity wtih the said act, and that said order and decree of the Circuit Court of Appeals in the said cause and every part thereof may be reversed by this Honorable Court.

And your petitioner will ever pray.

FRANK F. REED and
EDWARD S. ROGERS,
Counsel for Petitioner.

UNITED STATES OF AMERICA,
STATE OF ILLINOIS,
COOK COUNTY. } ss.:

Frank F. Reed, being duly sworn, says that he is one of the counsel of Dr. Miles Medical Company, the petitioner; that he prepared the foregoing petition; that affiant has been of counsel for the complainant in each and all of the suits in Federal courts referred to in said petition except the action at law of *Loder* v. *Jayne* in the United States Circuit Court for the Eastern District of Pennsylvania and the appeal therein of the United States Circuit Court, Third Circuit, and therein was consulted and assisted in the preparation of the brief for defendants and appellants; that affiant is therefore personally familiar with the facts and proceedings in said suits and with the trade conditions and the establishment and enforcement of the systems or plans which were the subject matter of the litigation and that the allegations of said petitioner are true as he verily believes.

Frank F. Reed

Subscribed and sworn to before me by Frank F. Reed, this 12th day of September, A. D. 1908.

(Notarial Seal) Margaret Healy

Notary Public.

We hereby certify that we have examined the foregoing petition and in our opinion the petition is well founded and the case is one in which the prayer of the petition should be granted.

FRANK F. REED and
EDWARD S. ROGERS,
Of Counsel for Petitioner.

EXHIBIT B.

IN THE CIRCUIT COURT OF THE UNITED STATES,

District of Kansas—

First Division.

Samuel B. Hartman,
Complainant,
vs.
Frank Hobart,
Defendant.

Memoranda of Decision on Demurrer to Bill of Complaint.

This cause is before the Court on demurrer to the bill of complaint, and has been submitted to the Court upon written and printed briefs, and comes now on for decision.

Assuming, as must be done under the allegations of the bill, that the substance sold by the defendants is a *bona fide* and useful proprietary medicine, manufactured from a secret formula, and a legitimate subject of commerce, and not such an intoxicant as the organic and statutory laws of this State forbid the sale, and not such as come under the revenue laws of the government; and holding, as I think must be done, the manner of advertising and selling the same is a proper restriction and regulation of the manner of disposing of the same; and under the averments of the bill charging the defendants with soliciting and procuring the violation of lawful contractual relations between the complainant and the wholesalers with

whom such contracts have been made, I am of the opinion the demurrer must be overruled and the defendant be required to answer, and the case finally disposed of upon the proofs.

It is so ordered.

JOHN C. POLLOCK,
Judge.

(Endorsed)—8808 Memo. of Decision.—Filed June 12, 1906, Geo. F. Sharitt, clerk.

United States of America, }
District of Kansas, } ss.

I, George F. Sharitt, Clerk of the Circuit Court of the United States of America, for the District of Kansas, do hereby certify the foregoing to be a true, full and correct copy of Memo. of Decision in the suit of Samuel B. Hartman vs. Frank Hobart, Case No. 8308 in said court.

In testimony whereof, I have hereunto set my hand and affixed the seal of said court at my office in Topeka, in said District of Kansas, this 13th day of June, A. D. 1906.

GEO. F. SHARITT,
Clerk.

EXHIBIT C.

IN THE UNITED STATES CIRCUIT COURT

For the District of Minnesota—

Fourth Division.

Samuel B. Hartman,
Complainant,
vs.
W. J. Hughes,
Defendant.
} In Equity.

The said cause coming on to be heard upon and after due notice upon the demurrer heretofore filed by the defendants and the said demurrer having been duly argued by counsel and considered by the Court, it is ordered that the said demurrer be, and the same is hereby overruled, and defendant is allowed until the September rule day, A. D. 1905, to answer the said bill of complaint.

And the said cause coming on also to be heard on the motion of the complainant for a preliminary injunction upon the verified bill of complaint, the affidavits and exhibits filed on behalf of the complainant, and the affidavits and exhibits filed on behalf of the defendant, and the said motion having been duly noticed and argued by counsel and considered by the Court, it is ordered that the said defendant, W. J. Hughes, his agents, servants, employes, attorneys and associates and each thereof, be and they hereby are, during the pendency of this suit, enjoined and restrained from in any manner inducing or persuading

or attempting to induce or persuade directly or indirectly any person, firm or corporation, who had entered into the wholesale or retail agency contracts or any of them, with the complainant, relating to the purchase and sale of complainant's remedies and medicines as set forth in the said bill of complaint from in any way violating or breaking same and from selling or delivering to the defendant or to any person for him complainant's remedies and medicine or any thereof, and from procuring or attempting to procure in any way complainant's said remedies and medicine directly or indirectly from any wholesale or retail dealer, who had executed such wholesale or retail agency contract with complainant in violation of the same from advertising, selling or offering for sale the remedies or medicines of complainant obtained in or by any of the aforesaid means at prices less than the established retail prices thereof; from in any way obliterating, defacing, mutilating, breaking, altering, removing or destroying labels and wrappers upon the bottles containing complainant's remedies and medicine "Peruna," or any of said wrappers or labels; from breaking, defacing or removing the said crown or seal thereon; from removing or pulling the cork from bottles containing complainant's remedy and medicine "Peruna" before sale thereof, and from dissuading or attempting to dissuade intending purchasers of complainant's remedy and medicine "Peruna" from making said purchase from defendant by any false or untrue statements as to the ingredients or effect of complainant's remedy and medicine "Peruna." And that a writ of injunction

issue to the above effect upon complainant's filing a bond in the penal sum of One Thousand Dollars ($1,000) conditioned according to law, and with surety approved by the court.

WM. LOCHREN,
Judge.

(Endorsed)—Filed April 14, 1905, Henry B. Lang, clerk, by Geo. F. Hitchcock, Jr., deputy.

EXHIBIT D.

IN THE UNITED STATES CIRCUIT COURT,

Eastern District of New York.

Wells & Richardson Company
vs.
Abraham Abraham, *et al.*
} April 20, 1906.

Steuart & Steuart, solicitors for complainant; Frank F. Reed and Edward S. Rogers, of counsel for complainant.

Paul Grout, solicitor for defendants; Edmond E. Wise, of counsel.

THOMAS, *J.:*

The complainant owns a secret process for making a medicinal product known as "Paine's Celery Compound," or "Celery Compound," for many years extensively sold under a registered trademark showing a head of celery. The article is placed in bottles bearing the word "Paine's" on one side, and the words "Celery Compound" on the opposite side, while on the cork is a label showing the trademark and carry-

ing the words "Paine's Celery Compound"; on a third side of the bottle is a label showing a larger picture of the trademark, whereon is printed in large letters "Celery Compound" while below are the words "Paine's Celery Compound. A True Nerve Tonic, An Active Alterative, A Reliable Laxative, and Diuretic. —It Restores Strength, Renews Vitality, Purifies the Blood, Regulates the Kidneys, Liver and Bowels. Price $1.00. Prepared by Wells, Richardson & Co., Sole Proprietors, Burlington, Vt." On the fourth side appears, in English and German, the following:

> "Directions for using Paine's Celery Compound. The dose should be graduated to suit the patient, enough being taken to act upon the bowels and keep them regular, but lessening the dose if it acts too strongly: for adults, from a teaspoonful to a tablespoonful in a little water four times a day, before eating and at bed time; lessen the dose for children according to age. In bad cases of Neuralgia and Rheumatism double the above dose for the first two days, and in severe and obstinate cases, or in any disease complicated with Scrofula, add one-eighth ounce of Iodide of Potassium to each bottle, then use the medicine faithfully. Prepared by Wells, Richardson & Co., Sole Proprietors, Burlington, Vt."

On each of the two labels last described are stamped numbers, whereby the person to whom the complainant delivered the bottle may be traced. Around the bottle is wrapped a pamphlet, showing the picture and noting the history of "Prof. Edward E. Phelps, M. D., LL. D. The Eminent Discoverer of Paine's Celery Compound," followed by a disquisition on the nervous system, the relation of the nerves to the stomach, liver, kidneys, and heart, a great number

of pictures of, and communications from persons, who relate their experiences in the use of the medicine, and much other matter intended to illustrate the curative qualities of the medicine. The bottle and pamphlet are packed in a carton, one side of which shows, in a variety of colors, the matter appearing on the third above described side of the bottle; another side states that the compound is "A Reliable Medicine" for certain diseases enumerated, and gives the directions for its use as stated on the bottle; the same substantially is repeated in German on another side; while the fourth side announces for what the compound is a remedy. In each carton is an envelope containing samples of "Wills' English Pills," and recommending their use in certain cases supplementary to the compound.

The defendants, under the name of Abraham & Straus, are among the great merchants in New York, and sell at a cut price the compound, in the original bottles, stripped of carton, pamphlet, and all else, including labels, save the small circular label on the cork above described. The defendants do this in defiance of complainant's forbiddance that they sell the goods at all, unless they comply with the "Direct Contract System" instituted by the complainant. Under such syste mthe complainant sells its produce only to wholesale or jobbing druggists who will agree with the complainant that they will only sell at stated prices and discounts to such dealers as have executed contracts with complainant agreeing not to sell for consumption except at the prices fixed by the complainant, and that they will not sell at all to dealers who have

not similar contracts with the complainant. This system opens the field to all dealers who will agree to observe the fixed prices and limit sales for the purpose of reselling to those who have agreed to such terms. The defendants knew of this system; they rejected its opportunities; they by themselves, their agents, or other persons, induced or co-operated with some vendee, bound by such contract, to sell them the product, and to save their vendor the penalties of a breach of the contract the defendants stripped the packages to the bare glass, save the miniature label on the cork, and in this naked form have and are marketing the compound. The defendants remove the cartons and labels because they carry stamped thereon serial numbers, whereby the bottle may be traced from the complainant to the retailer or wholesaler. This preserves the secrecy of their operations. The result is that the defendants have and sell the product made by complainant, because they surreptitiously obtain it from persons who have agreed not to sell it to them.

The defendants urge that the evidence does not show that they purchased it from a person interdicted by the contract from selling it. When a bottle of medicine is despoiled of its very prescription, and the statement of the diseases for which it may be used, and this for the obvious purpose of shielding a contract breaker, the evidence of connivance and participation in the breach of the contract is sufficient. The doubt that Judge Lacombe entertained in *Bobbs-Merrill Co.* v. *Straus* (M. S., Aug. 14, 1904), does not exist in the case at bar.

But has the complainant a remedy in this suit? The contracts with the complainant's vendees are legal. Re-

sort need not be had to the voluminous briefs submitted, for the defendants in their brief say:

> "The validity of these contracts as between the parties, is nowhere attacked. On the contrary, the whole argument proceeded on the theory that, though as between the parties thereto such contracts could probably be enforced, third parties who did not assent thereto, and, who were under no contractual obligation to the complainant, could not in the absence of proof of fraud or conspiracy, be compelled to observe such contracts, in the case of articles made under secret processes, any more than if such articles were not made under secret processes, and that the patent cases which granted such remedy had no application to the case at bar."

The concession as to the legality of the contract accords with the decision in *Park* v. *National Wholesale Druggists' Association,* 175 N. Y., 1; *Garst* v. *Harris,* 177 Mass., 72; *Garst* v. *Charles,* 187 Mass., 144.

But the defendants contend that the defendants cannot be enjoined from purchasing the goods, or selling them after purchase. That proposition in connection with the facts appearing amounts to this: that the complainant's vendees are legally bounden by contract not to sell to the defendants, but that the defendants may, so long as they use neither force nor fraud, intentionally co-operate with them to do an illegal act, that is, break the contract, and be immune. The briefs abound in decisions, but no precedent should be required. A is intentionally doing B a legal injury; C intentionally induces A to do the injury; he solicits that it be done; he pays money to the doer of it to tempt him to do the act; that is, A and C unite, connive, agree, to procure A to break his contract, so

that C may get complainant's goods, which the latter has committed to A upon the trust that they shall not be delivered to C, and others similarly situated. In such an instance the law should have sufficient inherent integrity to enable it to lay fast hold of A and C, and stop both such deliberate breach of obligations, and the advantages that the persons implicated in it are gaining. The law permits the complainant to use the Direct Contract System to maintain the price of its medicine, so that it shall not be the subject of capricious sales at varying prices. The complainant is under no obligation to sell to the defendants; the defendants have no right, equitable or legal, to insist upon sales to them; the complainant sells to others only upon their solemn stipulation that they will not sell to persons situated as are the defendants. The defendants induce them to break such contract, and take part with them in breaking it, and get the goods, not by rightful purchase, because their vendors have no right to transfer the title to defendants, but by procuring these vendors to deliver to the defendants the goods, knowing that they have agreed with the complainant, upon its parting with title to its vendees, that the latter would not give title to these defendants. Remember that it is conceded that the contract is good and legal between the parties. If so, the defendants have attempted to take title from a person who has no right to transfer the legal title to any person of the class to which the defendants belong. Hence the defendants get goods by procuring the avoidance of another's obligation that he will not give it to them. Whatever may be said argumentatively, no sane conscience can justify one man inducing another to be-

tray a legal obligation. The point of wrong should not be missed. It is not primarily in selling a product which the makers have limited to be sold by others, of which the defendant is not one. The very vital wrong is that the defendants have obtained and are obtaining the goods by inducing others, not entitled to sell to them, to make sale to them, whereby the defendants come into possession by doing the complainant a legal injury, a wrong, that makes such possession wrongful. A contract prohibiting alienation to a particular class, is held to be lawful. It is admitted to be lawful. How, then, can the restriction upon alienation become unlawful in a court of equity, and how can a third person be heard to declare it unlawful, when an attempt is made to enjoin one from inducing a party to it to violate it? Is it valid at law and void in equity? If it is valid it is property, and a court should be authorized to protect it, as any other property may be protected that is menaced by a wrongdoer. The law of the land accords with good morals.

In *Heath* v. *American Book Co.*, 97 Fed. Rep., 533, the defendant knowingly induced the school book board of counties to purchase books from him, and discard those of the plaintiff which they by contract were obligated to take. The defendant was held liable for damages. No fraud or misrepresentation was alleged. The learned judge followed *Lumley* v. *Gye*, 2 El. & Bl., 216, in which a singer was maliciously induced by defendant to break her contract with another, and the defendant was held liable for damages. In *Angle* v. *Chicago, etc., R.*, 151 U. S., 1, the plaintiff was pre-

vented from completing a contract by the defendant bribing its officers and inducing by false allegations the legislature to withdraw a grant of land, and a bill in equity to reach the property held by the defendant and adjudged applicable to the payment of plaintiff's damages was sustained. The opinion states that:

> "It has been repeatedly held that, if one maliciously interferes in a contract between two parties, and induces one of them to break that contract to the injury of the other, the party injured can maintain an action against the wrongdoer,"

and in support of this instances *Green* v. *Button,* 2 Cr. Mees. & R., 707; *Lumley* v. *Gye,* 2 El. & Bl., 216; *Bowen* v. *Hall,* 6 Q. B. D., 333, 337; *Walker* v. *Cronin,* 107 Mass., 555; *Jones* v. *Stanly,* 76 N. C., 355, 356; *Haskins* v. *Royster,* 70 N. C., 601; and thereupon the opinion proceeds:

> "Under these authorities, if the Omaha Company has by its wrongful conduct simply induced the Portage Company to break its contract with Angle, it would have been liable to him for the damages sustained thereby. A *fortiori,* when it not only induces a breach of the contract by the Portage Company, but also disables it from performance."

In *Moran* v. *Dunphy,* 177 Mass., 485, it is said:

> "But in view of the series of decisions by this court from *Walker* v. *Cronin,* 107 Mass., 555, through *Morassi* v. *Brochu,* 151 Mass., 567; *Tasker* v. *Stanley,* 153 Mass., 148; *Vegelahn* v. *Guntner,* 167 Mass., 92; *Hartnett* v. *Plumbers' Supply Association,* 169 Mass., 229, and *Weston* v. *Barnicoat,* 175 Mass., 454, to *Plant* v. *Woods,* 176 Mass., 492, we cannot admit a doubt that maliciously and without justifiable cause to induce a third person to end his employment of the plaintiff, whether

the inducement be false slanders or successful persuasion, is an actionable tort."

See also

Doremus v. *Hennessy,* 176 Ill., 608.

In *Garst* v. *Charles,* 187 Mass., 144, it appears that the defendant and one Bickford, persons separately engaged in the retail drug business, agreed that Bickford should buy of the plaintiff a proprietary medicine manufactured by him under a contract, wherein he agreed not to sell it at retail at less than a specified price, and that subsequent purchasers should obtain and sell it only under such agreement. Bickford made the purchase and turned it over to the defendant, who advertised and sold it at less than the specified price. The opinion after stating this history continues:

"All this was in pursuance of a conspiracy between the defendant and Bickford that Bickford should make this contract and break it, to the injury of the plaintiff, for the benefit of the defendant. A conspiracy to deprive one of the benefit of a contract with another is unlawful. *Carew* v. *Rutherford,* 106 Mass., 1, 8 (Am. Rep., 287; *Walker* v. *Cronin,* 107 Mass., 555; *Vegelahn* v. *Guntner,* 167 Mass., 92, 44 N. E., 1077, 35 L. R. A., 722, 57 Am. St. Rep., 443; *Plant* v. *Woods,* 176 Mass., 492, 57 N. E., 1011, 51 L. R. A., 339, 79 Am. St. Rep., 330. The defendant's arrangement with Bickford that he should break the contract was a wrong upon the plaintiff, intended for the defendant's advantage. The scheme was fraudulent. The purpose of the defendant was to induce the plaintiff to part with his property at a comparatively low price to a person who was in fact a retail druggist, and who represented by his words and conduct that he wanted the medicine to sell at retail, and who agreed not to sell it at less

than the regular retail price, when in fact he was obtaining it under an arrangement to turn it over to the defendant at the wholesale price, to be sold by him at retail at less than the regular price. The defendant was a party to this scheme of fraud, and presumably was the author of it. He should be held liable for the wrong. *Exchange Telegraph Co.* v. *Central News* (1897), 2 Ch., 48; *Dodge Co.* v. *Construction Information Co.*, 183 Mass., 62, 66 N. E., 204, 60 L. R. A., 810, 97 Am. St. Rep., 412. In this respect the case is very different from *Garst* v. *Hall & Lyon Co.*, 179 Mass., 588, 51 N. E., 219, 55 L. R. A., 631. See also *Taddy et al.* v. *Sterious et al.* (1903), 1 Ch., 354. The suit is one which calls for relief in equity. The damages are of a kind that cannot be accurately computed or easily estimated. The remedy at law is not complete and adequate, and an injunction with damages for the injury already suffered gives the only proper relief."

In *American Law Book Co.* v. *Edward Thompson Co.*, 84 N. Y. S., 225, Justice Bischoff states the fact and his conclusion as follows:

"By preliminary injunction in an action for injunctive relief the plaintiff seeks to restrain the the defendant from making agreements with subscribers to the plaintiff's encyclopedia, whereby the defendant undertakes to indemnify these subscribers against claims for damages for their breach of contract in declining to receive and pay for the plaintiff's books, and from conducting and defraying the expenses of the defense to any action brought against the subscriber by the plaintiff. The complaint alleges that these agreements have been systematically offered by the defendant to the plaintiff's subscribers for the purpose of causing them to subscribe to the defendant's encyclopedia, and to repudiate their subscriptions for the work published by the plaintiff; and the allegations further disclose the making of intentional

misrepresentations by the defendant to these subscribers as to the relative merits of the encyclopedias for the purpose of inducing the breach of contract. The defendant admits the making of the agreements in question, but asserts that the plaintiff has no remedy in equity upon the allegations of the complaint, the contention being that the plaintiff has his remedy at law for each contract broken, that the party to that contract has the right to break it and pay damages, and that what the party can do another person may ask him to do without restraint by injunction. It is also argued that the cases in which an injunction has been granted to prevent the solicitation of a breach of contract are found to have involved only contracts for personal services, and that there is no precedent for such an injunction as the plaintiff seeks. If there be no exact precedent for this injunction, none is needed. The complaint avers, and the affidavits support the averment, that the defendant is engaged in an attempt to obtain business which the plaintiff has secured, having no regard to fairness of competition but with resort to trick and device.

Whether the subscribers are in each instance actually led by the defendant's misrepresentations to break the particular contracts is not important, and is not an essential averment of the complaint. Intentional false statements, made with a view to obstruct the plaintiff's business and to divert it to the defendant, are charged, and the solicitation of the subscriber's breach of contract is but a more active step in the same scheme of unfair competition. The fraudulent intent, followed to fruition in the actual inducement to persons dealing with the plaintiff to break their contracts for the intended benefit of the defendant and to the intended injury of the plaintiff, is the basis of the defendant's wrong; a wrong which our system of remedial justice recognizes as the subject of relief."

In *Dr. Miles Medical Co.* v. *Goldthwaite,* 133 Fed. Rep., 794, the defendant was restrained from interfering with contracts, similar to those now under consideration, by inducing their violation by the parties thereto, and from selling the medicine as complainant's, in other than the original packages and at the contract price. In *Dr. Miles Medical Co.* v. *Platt,* and two other cases (U. S. Cir. Ct., N. D. of Ill.). Judge Kohlsaat made a similar holding, as did Judge Cochran, in *Hartman* v. *Park* (U. S. Cir. Ct., E. D. of Ky.).

The case at bar must be carefully distinguished from cases where the purchase is from one who has a right to sell to the purchaser. Such was *Keeler* v. *Standard Folding Bed Co.,* 157 U. S., 660. Cases must also be differentiated where the facts do not even show a contract. Such was *Bobbs-Merrall Co.* v. *Straus,* 139 Fed. Rep., 155. In *Garst* v. *Hall, Lyon & Co.,* 179 Mass., 588, it is said:

> "It is not averred that the defendant ever made any contract or agreement with the plaintiff, or had any dealings with him. No fraudulent act or conduct of the defendant in obtaining the medicine is set out, although the word 'fraudulently' is used in characterizing his acts. This word adds nothing to the averments of fact in the bill. The statement of the alleged fraud is too general to be the foundation of a decree. *Nichols* v. *Rogers,* 139 Mass., 146; *Nye* v. *Storer,* 168 Mass., 53. The averments of the bill in this particular would be entirely satisfied by showing a purchase of the medicine by the defendant from a person who bought it of the plaintiff's vendee, or from one who bought it of a purchaser from the vendee. The agreed statement of facts shows that the defendant obtained it in this way. The defendant did not buy the medicine of the firm of

wholesalers who received it from the plaintiff, and who agreed to sell it subject to the above conditions, but bought it of a person who bought either from this firm, or from a purchaser from this firm."

If the defendants in the case at bar stood in a like innocent condition, why have they not proved the same under their oaths, and shown that they purchased in good faith and from a person, who so far as they had notice, could sell without breach of a contract not to sell to them. As already stated, the effort to hide the history of their purchase is sufficient evidence of their unlawful participation in the breach of the contract. But the fact of selling the goods thus obtained is not the only legal injury by the defendants to the complainant. They tear the very prescription from the bottle, so that the consumer may not know how to use the medicine, whether he is using it advantageously, or injuriously, and the defendants, by removing all enumeration of the diseases for which the medicine may be used, deprive the purchaser of the complainant's advice and representations in such regard. This seems to be a ruthless proceeding, both as regards the consumer and the complainant. The defendants urge that the medicine has an element, alcohol, that is dangerous for certain diseases enumerated by the complainant. Plainly, then, the medicine should be administered with care. But the defendants send broadcast the remedy without limitation as to dose or disease. This is a palpable menace to the patient, and to the complainant's business, and should be enjoined. *Dr. Miles Medical Co.* v. *Goldthwaite,* 133 Fed. Rep., 794; *Hartman* v. *Park* (U. S. Cir. Ct., E. D.

of Ky., not reported). But the defendants, vigorously engaged in selling the medicine, urge that it is dangerous for certain diseases for which the complainant advertises it, and that the complainant, thus inequitable, should not be heard against the defendants, who are using their ample opportunities to market this very medicine, so alleged by themselves to be dangerous. This is a strange attempt at defense. The claim that Dr. Phelps' participation in the discovery of the product is not as asserted in the complainant's literature, does not prevent defendants from taking advantage of any fame such alleged connection of Dr. Phelps has produced for the remedy. However, it is not perceived that the representations regarding his relation to it are necessarily false. The other affirmative defenses raised by the defendants to shield themselves are not approved. *Dr. Miles Medical Co.* v. *Platt* and other cases (U. S. Cir. Ct., N. D. of Ill.).

The complainant is entitled to an order:

(1) Restraining the defendants, their agents and servants, and all persons acting in concert or connivance with them, from purchasing, directly or indirectly, the compound from any person who has entered into the contract above stated with the complainant, or from any person who has not entered into such contract, where defendants have notice or knowledge of such relation or absence of contractual relation to the complainant; and restraining the defendants, their agents and servants, and all persons acting in concert and connivance with them, from selling such compound now or hereafter obtained from any such person or persons.

(2) In any case where the defendants may become authorized to sell the compound, restraining them from doing so, unless the package containing it bear all the directions for using Paine's Celery Compound, and the precise representations as to the purposes and diseases for which it may be taken, as shown both on the label and the carton containing the bottle.

The details of the terms and scope of the injunction will be determined more precisely upon the settlement of the order herein. At the time of settling the order, ruling on the exceptions to the answer herein will be made.

EXHIBIT E.

IN THE UNITED STATES CIRCUIT COURT,

For the Eastern District of New York.

Wells & Richardson Company, *Complainant,*
vs.
Abraham Abraham *et al.*, *Defendants.*
} In Equity.

The motion for a preliminary injunction in the above-entitled cause having come on to be heard upon the verified bill of complaint and exhibits, affidavits on behalf of complainant and exhibits, affidavits on behalf of defendants and exhibits and rebuttal affidavits on behalf of complainant and the same having been duly argued by counsel and considered by the court, it is ordered that the said the defendants, their agents and servants and all persons acting in con-

cert with them be and the same are hereby each and all during the pendency of this suit, enjoined and restrained from purchasing directly or indirectly, the said remedy of the complainant styled "Paine's Celery Compound," from any person who has entered into contracts with the complainant of the tenor and effect set out in the said bill of complaint and amendment thereof and from any person who has not entered into such contracts or contract where defendants have notice of such relation or absence of contractual relation with complainant and also from selling such remedy known as "Paine's Celery Compound," now or hereafter obtained from any such person or persons last designated; also that the said defendants, their agents and servants, if at any time, said defendants become authorized to sell said remedy known as "Paine's Celery Compound" be and they hereby are restrained and enjoined during the pendency of this suit from selling the said remedy known as "Paine's Celery Compound," unless the package containing the same bear and be sold with all the directions for using the said "Paine's Celery Compound," and the precise representations as to the purposes and diseases for which it may be taken, as shown both on the label and the carton containing the bottles of said Celery Compound.

Dated May 7th, 1906.

EDWARD B. THOMAS,
U. S. J.

EXHIBIT F.

UNITED STATES CIRCUIT COURT OF APPEALS,

Second Circuit.

Wells & Richardson, *Appellees,* *vs.* Abraham Abraham *et al.*, *Appellants.*	Before Wallace, Townsend and Coxe, Circuit Judges.

Per Curiam:

The assignments of error do not require us to decide whether the terms of the injunction are broader than the case warrants. The fifteenth assignment is the only one directed to the point, and does not specify any particulars in which the terms are too broad.

For reasons stated in the argument we are of the opinion that we are not authorized to pass upon the question of jurisdiction presented.

Upon the principal question argued we are not convinced of the unsoundness of the conclusions of Judge Thomas as expressed in his opinion in the court below, and see no reason for departing from our usual custom not to formulate an extended opinion on appeals from orders for preliminary injunctions where we affirm the court below unless we disapprove the reasoning of its opinion.

The order is affirmed.

UNITED STATES CIRCUIT COURT OF APPEALS,

Second Circuit.

Wells & Richardson, *Appellees,*
vs.
Abraham *et al.*, *Appellants.*

Before Wallace, Townsend and Coxe, Circuit Judges.

WALLACE, *Circuit Judge:*

I do not agree with the majority of the court that we are not authorized to pass upon the question of the jurisdiction of the court below. In *Boston & Maine Railroad Co.* v. *Gokey,* lately decided by this court, I have given the reasons why I think the court should no longer adhere to its decisions in *United States* v. *Lee Yen Tai* (113 F. R., 465) and *Fisheries Co.* v. *Lennan* (130 F. R., 533). I think, however, that the bill shows a case in which the requisite jurisdictional amount is involved. One of the rights sought to be protected by the complainant is its system of contracts, which is alleged to be of the value of more than $2,000; and the bill alleged that the acts of the defendant which are complained of are destructive thereof.

EXHIBIT G.

CIRCUIT COURT OF THE UNITED STATES,

District of Massachusetts.

In Equity.

No. 300.

Dr. Miles Medical Company

vs.

Jaynes Drug Company *et al.*

OPINION OF THE COURT.

December 12, 1906.

COLT, *J.* This is a bill in equity for an injunction and an account. The defendants have demurred to the bill. The grounds of demurrer relied upon are the special ground that the allegations of the bill are insufficient for want of certainty, and the general ground that the bill does not state a case which entitles the complainant to relief in equity. The material allegations of the bill may be summarized as follows:

The complainant is the exclusive owner of certain secret formulas for making proprietary medicines, and is extensively engaged in the manufacture of these medicines. It sells these medicines to wholesale and retail druggists on what is known as the direct-contract plan. Under this system of agency con-

tracts the medicines are sold to jobbers, retailers, and consumers at fixed and uniform prices, and the jobbers agree to sell only to retailers who have executed contracts, and these retailers agree to sell only to purchasers for consumption. The medicines are put up in various original and distinctive cartons and bottles bearing certain labels, trade-marks and trade-names. As a means of identifying each package, serial numbers are stamped upon the carton.

All druggists are given full opportunity of signing these contracts and of obtaining these articles at fixed and uniform prices. These contracts are in force between the complainant and nearly all the wholesale druggists of the country and over forty thousand retail druggists. The purpose of the system is to prevent secret rebates, discrimination, price-cutting, demoralization of trade, and injury to the reputation and good-will of the complainant's business.

The defendants are wholesale and retail druggists, having stores in various places in the City of Boston. Refusing the opportunity offered them to execute these contracts, the bill charges that the defendants have combined and conspired with complainant's agents, and that they have adopted a system of illegally and fraudulently obtaining these medicines. The methods employed consist in inducing retail dealers to execute contracts for the purpose of procuring these medicines from jobbers, and then turning over the medicines so procured to the defendants; in procuring contracts from retailers, and persuading jobbers to sell complainant's medicines, ostensibly to such retailers, but in reality to defendants;

in persuading and inducing retail druggists under contract with the complainant to supply these medicines to defendants in violation of such contracts, or by deceiving such retailers into sales by fraudulently stating that the purchases are for consumption and not for resale. The defendants, it is alleged, offer for sale and sell the medicines so obtained at cut rates, thereby demoralizing prices, depleting trade, and causing irreparable injury to the complainant. The defendants further employ the complainant's medicines as a means of attracting customers and then substituting and selling other remedies, thus inducing such customers to abandon their original intention of purchasing the complainant's medicines. In case of the sale of complainant's medicines the defendants mutilate, obliterate, or cover up the trade-marks, trade-names and serial numbers upon the packages or cartons.

The bill prays that the defendants may be enjoined from persuading persons who have entered into contracts with the complainant from breaking their contracts by selling and delivering to the defendants the complainant's medicines; and from procuring from any retail druggists the execution of contracts with the complainant; and from passing themselves off to any jobber under contract with the complainant as representing a retail druggist who has executed a proper contract; and from procuring in any way the complainant's remedies from any wholesale or retail dealer who has entered into contracts with the complainant in violation of those contracts; and from mutilating or defacing the complainant's packages, or changing its cartons or labels; and for other relief.

The theory upon which this bill is framed is clear. The complainant's medicines are only sold to wholesale and retail druggists under direct contracts with the complainant. The complainant finds that the defendants are selling its medicines at cut rates in mutilated packages. The bill charges the defendants with having obtained these medicines by unlawfully combining with, persuading, or deceiving, the agents of the complainant to break their contracts, and thus obtaining these medicines illegally and in violation of these contracts; and the bill seeks to enjoin the defendants from pursuing this course of conduct.

The bill contains a sufficiently clear statement of all the material facts to enable the defendants to make the proper defense thereto. It is probably impossible for the complainant to make the allegations more specific by naming the particular druggists with whom defendants have combined and conspired, since it appears from the bill that the defendants obliterate the identifying serial numbers upon the packages they sell. By this means the complainant is prevented from ascertaining the jobber or retailer to whom the package was originally sold. The bill, however, does set forth with great fullness the title and rights of the complainant, and the violation of those rights. It alleges, in various forms and with sufficient definiteness, the substantial facts of collusion, combination, and persuasion by the defendants with wholesale and retail druggists who are under contract with the complainant. It is a course of conduct which the bill seeks to enjoin, rather than any particular act. The rules of certainty do not require any more specific state-

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ments in bills of this character. *Swift & Company* v. *United States,* 196 U. S., 375, 400; *United States* v. *Bell Telephone Company,* 128 U. S., 315, 356.

The remaining and more important question is whether the bill states a case for relief in equity. If the complainant's system of contracts is lawful, it is clear that the allegations of the bill are sufficient, for the bill charges the defendants with unlawfully combining with and persuading the complainant's agents to break their contracts, and thereby obtaining complainant's medicines in violation of those contracts; and this is a familiar and well-settled ground of equitable relief. *Wells & Richardson Company* v. *Abraham,* 146 Fed. Rep., 190; *Dr. Miles Medical Company* v. *Platt,* 142 Fed. Rep., 606; *Angle* v. *Railway Company,* 151 U. S., 1; *Garst* v. *Charles,* 187 Mass., 144; *American Law Book Company* v. *Thompson Company,* 84 N. Y. Sup., 225; *Board of Trade* v. *Christie,* 198 U. S., 236, 251; *Exchange Telegraph Company* v. *Gregory,* L. R., 1 Q. B. D. (1896), 147; *Sperry & Hutchinson Company* v. *Mechanics' Clothing Company,* 128 Fed. Rep., 800. See also *Heath* v. *American Book Company,* 97 Fed. Rep., 533; *Walker* v. *Cronin,* 107 Mass., 555; *Moran* v. *Dunphy,* 177 Mass., 485; *Lumley* v. *Gye,* 2 Ell. & Bl., 216; *Bowen* v. *Hall,* 6 Q. B. D., 333.

It only remains to inquire whether the system of contracts set out in the bill is lawful. It is to this point that the arguments and briefs of counsel have been largely addressed. The contention of the defendants is that these contracts are unlawful because they are in restraint of trade. In support of this

position they do not rely so much upon the common law rule as upon the Federal statute, 26 Stat. 209.

The bill alleges that the complainant is the exclusive owner of these secret formulas, and the exclusive manufacturer of these remedies. It follows that, until voluntary disclosure or lawful discovery, the complainant has an exclusive property in these trade secrets, and has the exclusive right to make, use, and vend the articles made thereunder. The exclusive right of property in a trade secret is of necessity a monopoly, the same as a patent or a copyright. The complainant may make these articles, or refrain from making them. It may sell them, or refrain from selling them. It may sell them to one person, and not to another, and at such prices and upon such conditions as it may deem most advantageous. Contracts like those set out in the bill concerning articles made under trade secrets, the same as similar contracts concerning articles made under a patent or a copyright, are outside the rule of restraint of trade, whether at common law or under the Federal statute. *Hartman* v. *Park*, 143 Fed. Rep., 358; *Dr. Miles Medical Company* v. *Platt*, 142 Fed. Rep., 606; Wells *& Richardson Company* v. *Abraham*, 146 Fed. Rep., 190; *Dr. Miles Medical Company* v. *Goldwaite*, 133 Fed. Rep., 794; *Bement* v. *National Harrow Company*, 186 U. S., 70; *Board of Trade* v. *Christie*, 198 U. S., 236, 252; *Garst* v. *Harris*, 177 Mass., 72, 74; *Fowle* v. *Park*, 131 U. S., 88, 97; *Park & Sons Company* v. *National Wholesale Druggists' Association*, 175 N. Y., 1; *Standard Fire proing Company* v. *St. Louis Company*, 177 Mo., 559; *Victor Company* v. *The Fair*,

123 Fed. Rep., 424; *Heaton-Peninsular Company* v. *Eureka Company*, 77 Fed. Rep., 288; *Central Shade Company* v. *Cushman*, 143 Mass., 353; *Good* v. *Daland*, 121 N. Y., 1.

DEMURRER OVERRULED.

EXHIBIT H.

Dr. Miles Medical Co. v. *Platt. World's Dispensary Medical Ass'n* v. *Same. Hartman* v. *Same.*

(Circuit Court, N. D. Illinois, E. D.

Jan. 19, 1906.)

Nos. 27,492, 27,569, 27,588.

1. CONTRACTS—LEGALITY—CONDITIONS IN SALE OF PROPRIETARY MEDICINES.

The manufacturer of an article sold as a medicine and made under a secret process or formula of which he is the sole owner may sell such articles or withhold it from sale at his pleasure, may sell to one and not to another, and may lawfully, by contracts with purchasers, impose such conditions as he sees fit with respect to the prices at which it shall be sold to others or the persons to whom it may be sold.

2. INJUNCTION—INDUCING VIOLATION OF CONTRACT—DEFENSES.

In a suit by the manufacturer of an article made in accordance with a secret formula to enjoin the defendant from attempting to induce persons to whom

complainant sells such article to violate the contracts under which such sales are made, as an infringement or violation of complainant's property rights, an answer setting up that complainant has entered into an unlawful conspiracy with others to maintain the price of such articles and others of like character, and prevent competition in their sale, states no defense, since the right sought to be protected does not arise out of, and is in no way dependent upon, such alleged conspiracy.

In Equity. On exceptions to answers.

F. F. Reed and E. S. Rogers, for complainants.

A. E. Gammage and Chas. E. Soelke, for defendant.

KOHLSAAT, *Circuit Judge.* The first bill above mentioned is to restrain interference with complainant's system of marketing medicines made under secret formulas, on the theory that the complainant is the exclusive owner of the formulas, and has an absolute monopoly in the articles. The second action above is brought for similar relief, but the system of marketing is different. The third suit is similar to the first. The suits relate to what is known as the direct contract plan of marketing proprietary preparations. In the first case the wholesale contract is made, providing that the wholesale agent, in consideration of being supplied with the remedies at certain prices, agrees to sell the same only at certain prices, and only to people whom the Dr. Miles Company shall previously designate, and to fill out proper cards and slips, which are enclosed in packing cases, making the number on the slip correspond with the number on the package, and filling out in the body of the card

the name of the purchaser. The names of the persons appearing on the card are those to whom only the company permits its goods to be sold to wholesalers. The retail agency contract provides, in consideration of being furnished with the preparations, both that the retail dealer will sell only at certain prices, and that he will not sell to any wholesale or retail dealer who has not entered into a similar contract with the company. In the second case the system differs somewhat from the foregoing. The association enters into contracts with wholesale distributors of its preparations, the latter agreeing to sell only at certain prices, and not to sell to persons whom the association may designate as not entitled to receive them; the purpose being to secure uniform prices, both wholesale and retail, enabling small dealers to compete successfully with large dealers, preventing demoralization of the trade by cutting the prices for advertising purposes, and to keep the preparations out of the hands of objectionable persons. The third case is similar to the first.

In the first case it is alleged in the bill that the defendant, Platt, at one time signed the retail agency contract, but that it was afterwards violated by him and canceled. Since then, not being an authorized retailer, he is not entitled to purchase complainant's goods on any terms, unless he agrees thereto, which he declines and refuses to do. It is then alleged that defendant, by personating a retail agent of complainant, and by other fraudulent practices, has caused complainant's wholesale agents to violate their contracts and supply the goods to him, and in collusion with some

of the retail agents has also procured the goods, and by fraud, deception, persuasion, threats and coercion has procured complainant's agents to violate the terms of their contract; that his methods are various, and consist in inducing retail dealers to sign contracts and deliver them to jobbers and wholesale druggists who contract with the complainant, then to order the remedies through them and turn them over to the defendant, in violation of terms of the retail contracts; also of inducing and persuading retail druggists, under contract with complainant, to procure from jobbers and wholesale druggists, also under like contract, such remedies, and then to sell and supply them to the defendant in violation of the contract with complainant, and by threats, coercion, intimidation and duress causing wholesale druggists under contracts with complainant to break and violate the same. Defendant then sells the remedies at cut rates at his own store and supplies the same surreptitiously to others, who have not signed the contracts, thus demoralizing and injuring complainant's trade.

In the other two cases it is alleged that defendant is well advised of the system of contracts and sales of the complainant, and maliciously procured large quantities of complainant's medicines selling them at his own establishment at cut prices and supplying them in large quantities to dealers not entitled to receive them; that, upon learning of this conduct of the defendant complainant designated defendant as a person not entitled to deal in its preparations. Therefore defendant cannot lawfully obtain complainant's preparations, but defendant has by fraud and persuasion and in other surreptitious ways procured large

quentities of complainant's preparations from complainant's agents, in violation of their contracts with the complainant, and has also harassed and annoyed complainant's agents by constant calls upon them and demands for complainant's goods by threats, suits and legal proceedings, in an endeavor to cause them to violate their contracts with complainant and supply him with its preparations. That defendant sells the goods so obtained to others, who are designated by complainant as not entitled to deal therein; that defendant has instituted a pretended suit in equity in the Circuit Court of Cook County, Illinois, to compel complainant's agents to violate their contracts to supply complainant's goods to him; that this conduct is malicious and for the purpose of injuring complainant and destroying its system of contracts and method of sales. The bill seeks to enjoin defendant from inducing breaches of said contracts and prevent defendant from harassing and annoying complainant's agents by coercion, threats and legal proceedings, or otherwise. In the state court an injunction was refused by Judge Tuley, who sustained the lawful nature of the direct contract plan involved therein.

Exceptions are taken to certain allegations of the answer as immaterial and impertinent. These exceptions, in substance, are as follows: Complainant unlawfully, fraudulently and maliciously combined, conspired and confederated with a number of druggists to unlawfully and fraudulently fix and maintain an exorbitant and arbitrary price for all kinds of medicines, remedies and cures which are manufactured and sold in the United States under secret processes, and

to unlawfully destroy, stifle, restrict and prevent competition in the sale thereof, with intent thereby to compel the public to pay a higher price for such medicines, remedies and cures than it would otherwise be required to pay. Pursuant to such conspiracy said persons put in force the contract, serial number and card system and put in force and published all over the country certain blacklisting and boycotting circulars, pamphlets and lists containing the names of those drug dealers who refused to sign the contracts and become parties to the conspiracy; and dealers who have entered into the contracts and consented to be governed by such system are warned against selling any of such medicines to any persons named in such blacklisting circulars. That the real object and purpose of said system is to maintain arbitrarily and exorbitant prices for all medicines, etc., manufactured under secret process, to prevent and stifle competition and exact a higher price than the public would otherwise be required to pay. That complainant unfairly discriminates among its customers, surreptitiously supplying with the medicines certain, but not all, of its customers and patrons who have signed such contracts, but who, as complainant well knows, have openly violated the contracts by cutting prices. That defendant signed the contract, but was compelled and induced to do so by threats, intimidation, coercion and under duress by reason of said conspiracy. Defendant's inability to obtain such medicines is entirely due to the existence of the unlawful conspiracy, and complainant and its wholesalers refuse to sell any thereof to the defendant and by means of threats, duress, undue influence, blacklisting, boycotting, coercion and other un-

lawful ways and means, prevent defendant from purchasing any of said medicines. The real object and purpose of complainant's system and method is to prevent, suppress, destroy, and stifle competition among retail drug dealers, and compel the public to pay larger prices than under unrestricted competition; that, by means of threatening manufacturers of proprietary medicines with withdrawal of patronage of its members unless they adopt and put into effect said contract, serial number and card system, complainant coerces manufacturers to adopt said system and become parties to said unlawful conspiracy. The matter in the answers to which exception is taken in the other two cases is substantially the same as just stated. In addition to this, some of the allegations excepted to in the last two cases do not apply to those cases, but by inadvertence were copied from the answer in the first case.

That the contract, serial number, and card system is valid and lawful is thoroughly settled by the authorities. The products being made under trade secrets of which complainants are the exclusive owners, and no other person having any interest in or right to the secret formulas under which the articles are made, or to the articles themselves, the manufacturers may withhold them entirely from sale, may sell them on such terms as they please, may withhold them from any one person while selling to others, and may fix any price in their sole and exclusive discretion. This rule is abundantly settled. *Dr. Miles Medical Co.* v. *Goldthwaite* (C. C.), 133 Fed., 794; *Tabor* v. *Hoffman* (N. Y.), 23 N. E., 12, 16 Am. St. Rep., 740; *Harrison* v. *Glucose Co.*, 116 Fed., 304, 53 C. C. A., 484, 58 L. R.

A., 915; *Board of Trade* v. *Christie Grain and Stock Co.*, 198 U. S., 236, 25 Sup. Ct., 637, 49 L. Ed., 1031; *Garst* v. *Harris*, 177 Mass., 72, 58 N. E., 174; *Fowle* v. *Park*, 131 U. S., 88, 97, 9 Sup. Ct., 658, 33 L. Ed., 67; *Park & Sons Co.* v. *National Wholesale Druggists' Assn.* (N. Y.), 67 N. E., 136, 62 L. R. A., 632; *Standard Fireproofing Co.* v. *St. Louis Co.* (Mo. Sup.), 76 S W., 1008, 1012; *Bement* v. *National Harrow Co.*, 186 U. S., 70, 22 Sup. Ct., 747, 46 L. Ed., 1058; *Victor Co.* v. *The Fair*, 123 Fed., 424, 61 C. C. A., 58; *Heaton-Peninsular Button Co.* v. *Eureka Co.*, 77 Fed., 288, 25 C. C. A., 267, 35 L. R. A., 728; *Cortelyou* v. *Lowe*, 111 Fed., 1005, 49 C. C. A., 671; *Dickerson* v. *Matheson*, 57 Fed., 524, 6 C. C. A., 466; *Bonsack Mach. Co.* v. *Smith* (C. C.), 70 Fed., 383; *Bowling* v. *Taylor* (C. C.), 40 Fed., 404; *Dickerson* v. *Tinling*, 84 Fed., 192, 28 C. C. A., 139; *Central Shade Co.* v. *Cushman*, 143 Mass., 353, 9 N. E., 629; *Gloucester Isinglass Co.* v. *Russia Cement Co.*, 154 Mass., 92, 27 N. E., 1005, 12 L. R. A., 563, 26 Am. St. Rep., 214; *Good* v. *Daland*, 121 N. Y., 1, 24 N. E., 15; *Morse Twist Drill Co.* v. *Morse*, 103 Mass., 73, 4 Am. Rep., 513; *Hulse* v. *Machine Co.*, 65 Fed., 864, 13 C. C. A., 180.

But even assuming that an unlawful conspiracy or combination has been stated in the answer, and that complainants are parties to it, it is still no defense in this suit, because complainants do not in any way claim through or under the unlawful combination in this action. The alleged combination is collateral, and can be attacked only by a direct proceeding. These suits are brought for an infringement or violation of the property right of the complainants in the secret

process owned or controlled by them. The right of a patentee, owner of a copyright, or owner of a secret process is merely the right of exclusion or debarment. The holder of such a property right, as said by the court in the *Victor Talking Machine* case, above cited, is a czar in his own domain. He may sell, or not, as he chooses. He may fix such prices as he pleases. He may sell at one price to one person, and another to another person. He is not required to give reasons or deal fairly with purchasers. Why is it material, then in a suit to prevent infringements of complainants' rights in their secret processes, to inquire whether complainants have entered into a combination or conspiracy to control the very thing they are lawfully entitled to control? Numerous cases have arisen sustaining these conclusions, some of which are as follows: *Park* v. *Wholesale Assn.* (N. Y.), 67 N. E., 136, 62 L. R. A., 632; *Bohn* v. *Hollis,* 54 Minn., 223; 55 N. W., 1119, 21 L. R. A., 337, 40 Am. St. Rep., 319; *Pennsylvania Co.* v. *Bay* (C. C.), 138 Fed., 203; Baking *Powder Co.* v. *Boorman* (C. C.), 130 Fed., 726; *Brown Saddle Co.* v. *Troxel* (C. C.), 98 Fed., 620; *Fuller* v. *Berger,* 120 Fed., 274, 278, 56 C. C. A., 588, 65 L. R. A., 381; *Barton* v. *Mulvane* (Kan.) 52 Pac., 883, 884; *Lafayette Bridge Co.* v. *Streator* (C. C.), 105 Fed., 729, 731; *Dennehy* v. *McNulta,* 86 Fed., 825, 829, 30 C. C. A., 422, 41 L. R. A., 609; *Harrison* v. *Glucose Co.,* 116 Fed., 304, 307, 53 C. C. A., 484, 58 L. R. A., 915; *The Chas. E. Wisewell,* 86 Fed., 671, 673, 30 C. C. A., 339, 42 L. R. A., 85; *National Distilling Co.* v. *Cream City Co.,* 86 Wis., 352, 56 N. W., 864, 865, 39 Am. St. Rep., 902; *Strait* v. *National Harrow Co.* (C. C.), 57 Fed., 819; *Edison Electric Light Co.* v. *Sawyer-Man Electric*

Co., 53 Fed., 592, 593, 3 C. C. A., 605; *American Soda Fountain Co.* v. *Green* (C. C.), 69 Fed., 333, 335; *Columbia Wire Co.* v. *Freeman* (C. C.), 71 Fed., 302, 306, *Bonsack Co.* v. *Smith* (C. C.), 70 Fed., 383, 385; *National Box Co.* v. *Robertson* (C. C.), 99 Fed., 985; *Insurance Co.* v. *Clunie* (C. C.), 88 Fed., 160, 169; *General Electric Co.* v. *Wise* (C. C.), 119 Fed., 922; *Bement* v. *Harrow Co.*, 186 U. S., 76, 22 Sup. Ct., 747, 46 L. Ed., 1058; *Scribner* v. *Straus* (C. C.), 130 Fed., 389.

It is true that the dominion of the owner of a secret process over the articles manufactured under that process ceases upon their sale. They then become articles of general merchandise, subject to sale and resale just as though no right of exclusion ever existed in regard to them. Defendant might lawfully buy these remedies from retail druggists at the prices fixed in the contracts between them and the manufacturers or general wholsale agents, and sell them at will for such prices as he might make. This, however, is a very different thing from obtaining these medicines by inducing wholesalers or retailers to violate their contracts with the owners of the formulas. Defendant may properly be enjoined from in any way procuring a violation of these contracts, since they are lawful and proper, under the circumstances. *Exchange Telephone Co.* v. *Gregory*, 74 L. T. (N. S.), 85; *In re Park* (Southern Dist. Ohio), 138 Fed., 421; *Railway Co.* v. *McConnell* (C. C.), 82 Fed., 65; *Garst* v. *Hall*, 179 Mass., 588, 61 N. E., 219, 55 L. R. A., 631.

For these reasons, the exceptions to the answers in the three cases should be sustained.

EXHIBIT I.

U. S. CIRCUIT COURT,
Southern District of New York.

Paris Medicine Co.
vs.
Hegeman & Co.

Motion for Preliminary Injunction.

LACOMBE, *C. J.:*

The controlling points in this cause are substantially the same as in *Wells and Richardson* v. *Abraham* recently decided by Judge Thomas. Concurring in the views expressed in his opinion, I shall make a like disposition of the cause at bar. The motion for preliminary injunction is granted.

EXHIBIT J.

At a Stated Term of the United States Circuit Court for the Southern District of New York, begun on the 9th day of June, A. D. 1906, Hon. E. H. Lacombe, Circuit Judge, presiding.

Paris Medicine Company,
Complainant,
vs.
Hegeman & Company,
Defendant.
} In Equity.

The motion for a preliminary injunction during the pendency of the suit coming on to be heard upon the

verified bill of complaint and affidavits and exhibits on behalf of complainant and defendant, and the same having been duly noticed and argued by counsel, and considered by the Court, it is ordered that said motion for preliminary injunction during the pendency of the suit be, and the same is hereby granted; and that the defendant, its officers, agents, servants and employees, and each of them be, and they are hereby enjoined and restrained during the pendency of this suit from in any way procuring, or attempting to procure, by fraud, collusion, inducement, conspiracy or otherwise, the said medicinal preparation and remedy of complainant known as "Laxative Bromo Quinine" from any person, firm or corporation who has entered into the wholesale or retail agency contracts with complainant set forth in the bill of complaint in violation thereof, and from colluding, conspiring or combining with any person, firm or corporation who has or shall have entered into such aforesaid wholesale or retail agency contracts in violation thereof, to obtain said medicinal preparation and remedy, and from advertising, offering for sale or selling said medicinal preparation obtained by or through the means aforesaid, or any thereof, at prices less than the price established therefor by complainant, and that a writ of injunction issue to the above effect.

E. H. Lacombe,
U. S. Circuit Judge.

EXHIBIT K.

December 1, 1906.

IN THE UNITED STATES COURT OF APPEALS,
For the Third Circuit.

Jayne *et al.* } No. 34.
v. } March T. 1906.
Loder.

Writ of error to the Circuit Court of the United States for the Eastern District of Pennsylvania.

John G. Johnson (Henry LaBarre Jayne, Charles Biddle, N. DuBois Miller with him) for Jayne *et al.*

W. Horace Hepburn for H. K. Mulford & Co.

Irving P. Wagner, for Warren H. Foley, plaintiffs in error.

Henry J. Scott, for defendant in error.

Before Dallas and Gray, Circuit Judges, and Archbald, District Judge.

ARCHBALD, *District Judge:*

This case was an involved and tedious one; and the reluctance of counsel to retry it is not to be wondered at. The suggestion at bar, however, that there should be no reversal, unless it could be without a venire, was not put in shape to be acted upon; and as material error has been assigned which cannot be passed over, notwithstanding the painstaking care with which the case was considered and the correctness with which in the main it was disposed of, it must nevertheless go back and be tried over.

The error which lies on the surface is the attempt of the court by a reduction of the verdict admittedly no sufficient evidence. The damages claimed by the plaintiff were $34,416.72, made up as follows:

Compensation for extra time and labor covering a period of 4 years	$20,000.00
8 per cent. increased cost on $96,000 worth of proprietary medicines purchased	7,680.00
Extra clerk hire for 4 years	4,000.00
Interest for 4 years on $10,000 increased capital required	2,700.00
Loss of profits in sales in June and July, 1904	36.72

The jury gave a verdict somewhat less than this, for $20,738, which the court on a rule for a new trial still further reduced to $10,880.52, to which extent alone it was figured there was evidence to sustain it (*Loder vs. Jayne,* 142 Fed., 1010). It is not necessary to follow the steps by which this result was reached, or the reasoning by which it was sought to be justified. It is sufficient to note that the evidence with regard to the first and fourth items of claim was held to be insufficient, and that the item of clerk hire was found to be substantiated to the amount of but $3,164. Putting this and the remaining two items together, the verdict was allowed to stand for the aggregate, all above that being required to be released. The error which was so committed is manifest. The admission of incompetent evidence could not be cured in any such way. The verdict rendered is based on the whole of it, good and bad, and there is no means of knowing by what items the jury were influenced, or how far the items which are now allowed were ac-

cepted by them or entered into their calculations. As it stands, the verdict is judge made, the only virtue in it being that it is within the amount assessed by the jury. But that coincidence does not help it, the amount so found being the result of evidence improperly submitted for their consideration, the only remedy for which is to grant a new trial (*Jacoby* v. *Johnson*, 120 Fed., 487. See also *Watt* v. *Watt*, L. R. App. Cases (1905) 115).

More important, however, is the question which is raised, whether the defendants are in any respect liable. The action is for damages, under the Act of Congress of July 2, 1890, 26 Stats. 209 c 647, commonly known as the Sherman Anti-Trust Law, the defendants being charged with having entered into an unlawful combination injurious to the plaintiff within its terms. The sections which obtain are given in the margin.* The drug trade is the one affected, the

*Sec. 1. Every contract, combination in the form of trust or otherwise, or conspiracy in restraint of trade, or commerce among the several states or with foreign nations, is hereby declared to be illegal. Every person who shall make any such contract or engage in such combination or conspiracy shall be deemed guilty of a misdemeanor and on conviction thereof shall be punished by fine not exceeding five thousand dollars or by imprisonment not exceeding one year or by both said punishments, in the discretion of the Court.

Sec. 2. Every person who shall monopolize or attempt to monopolize or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several states or with foreign nations, shall be deemed guilty of a misdemeanor, and on conviction thereof, shall be punished by fine not exceeding five thousand dollars or by imprisonment not exceeding one year, or by both said punishments in the discretion of the Court.

plaintiff being a retail dealer doing business in Philadelphia, and the defendants variously engaged as wholesale or retail druggists or manufacturers of patent medicines and pharmaceutical supplies. The plaintiff is the subject of trade animosity because he does not maintain the price of their medicines, as the defendants think he ought to, and as they have agreed among themselves that they shall be. He is what is known as an "aggressive cutter," against whom and others similarly actuated the acts complained of are directed.

That which is charged to be a combination in violation of the Act, consists primarily in what is known as the Tripartite plan, so called because of its being entered into by the three affiliated associations in the drug trade—the Proprietary Association of America, the National Wholesale Druggists Association and the National Association of Retail Druggists—of one or the other of which the defendants are members. The purpose was to maintain the retail prices of patent or proprietary medicines by combined action, which was recognized as necessary to accomplish it. These medicines being compounded according to secret formulas by those who originate them, are made popular by extensive advertising, and are supposed to be retailed to the consumer at uniform prices, fixed by

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Sec. 7. Any person who shall be injured in his business or property by any other person or corporation by reason of anything forbidden or declared to be unlawful by this act may sue therefor in any Circuit Court of the United States in the district in which the defendant resides, or is found, without respect to the amount in controversy and shall recover threefold the damages by him sustained, and the costs of suit, including a reasonable attorney's fee.

the proprietors and named on the package. In some parts of the country this is carried out. But in others, and particularly in the large cities, where competition is keen, there has for a long time been a cutting of prices by the retailer, which has reacted on the jobber or wholesaler, as well as the proprietary, demoralizing all branches of the trade. This condition was the subject of extended discussion and animadversion for a number of years at various meetings of the several Associations involved, different means for remedying it being proposed. The plan finally formulated was adopted upon an overture from the Retailers, at the annual meeting of the Wholesalers, at Chicago in September, 1900, in which the Proprietors as associate members participated. It seems to have had its inception in a resolution passed at the preceding annual meeting of the wholesalers, in conformity to which the chairman of the proprietary committee, and the chairman of the executive committee of the Retailers, sent out in March, 1900, a confidential circular in the joint names of the two associations to various patent medicine proprietors, urging them for the future to confine their best price sales to a uniform list of jobbers to be selected as wholesale agents. A number of prominent proprietors, who had already agreed to the proposed policy, was given, and in order to make it effective it was urged that each should send out to his wholesale distributing agents a printed price list, giving the regular rebates on goods when ordered in certain quantities, to be restricted however to those who did not divide quantities with others or quote or sell these preparations, either directly or indirectly, or permit them to be disposed of in any way,

at less than the prices stated. Favorable responses were received to these circulars, but at the suggestion of members of the retail trade, as well as in pursuance of views expressed by a large percentage of the jobbers, it was decided that the selection of the list of wholesale agents, to whom alone best price sales should be made, should be subject to certain conditions: 1. That jobbers through their salesmen should refrain from running down proprietary goods, and should sell whatever was called for by the customer without reference to any particular article happening to pay a higher profit; 2. That they ask no further discounts than already allowed; 3. That each jobber discontinue his so-called non-secret department (referring to substitute preparations offered in place of proprietary medicines called for); and 4. That they refrain from selling proprietary preparations at any price, either directly or indirectly, to aggressive cutters or brokers, an aggressive cutter being defined as a dealer who was so designated by seventy-five per cent. of the local trade at any given place. The plan so recommended was adopted, not only, as already stated, by the National Wholesalers' Association, but by the Proprietors and Retailers as well, and became the so-called Tripartite agreement in suit. To be successful, it required the adherence and concerted action of the members of each association, and this was secured by direct appeal and individual assent. As the result of it, the proprietors sold only thereafter, at uniform and fixed prices, to those wholesalers and jobbers who agreed to maintain prices and not sell to aggressive cutters and brokers, the recognized list of such jobbers being furnished to the Proprietors by

the chairman of the proprietary committee of the Wholesalers, and the list of aggressive cutters, as reported by local associations of Retailers, whose organizers investigated the matter, being made up and sent out to jobbers and Proprietors by the Secretary of the National Retailers. If a Wholesaler failed to regard this list and sold to an aggressive cutter, he was promptly reported, and his name added to it. A pink slip was also sent out to all retail druggists who were members of the Retailers Association, calling attention to the fact, and insinuating that such individual action be taken by each, protective of his own interest, as might seem advisable, a cessation of dealing being plainly intimated. And this was followed, in case of a correction of his ways by the Wholesaler and his reinstatement, by a yellow slip, announcing that he was entitled to the same favorable consideration as before.

Notwithstanding however the seemingly drastic character of these provisions, the aggressive cutter having still a certain margin on which to trade if not thrive, at the annual convention of the National Retailers' Association at Cleveland in 1902, it was resolved: "That * * * the secretary be instructed to request all manufacturers of chemicals, pharmaceuticals, plasters, dressing and like products, handled by the drug trade, to desist from selling to aggressive cutters, or suppliers of cutters, when solicited to do so by the respective local associations; and that the retail druggists shall be made acquainted with the responses to such requests, in such manner as the executive committee may deem best." This is the so-called

"Resolution C," to be referred to more fully by that name as we proceed. Under the date of November 6 following, the National Secretary accordingly addressed a circular letter to each of the manufacturers indicated, propounding the question, whether, when specifically requested by local associations of retail druggists throughout the country, affiliated with the National Retail Association, they would refuse all sales to those parties whom the various manufacturers of proprietaries had designated as aggressive cutters. To this appeal a large majority of the manufacturers made favorable reply. But others having failed to do so, a second circular was issued May 1, 1903, again calling attention to the matter, and notifying the parties addressed, that there would be published in the official paper of the National Association, called "Notes," "Notes," a list of those who acquiesced and those who did not, requesting definite answer as before. "It is believed," as it is significantly said in closing, "that a little reflection will convince you of the desirability of co-operating with the secretary of the N. A. R. D. * in the discharge of National Association of Retail Druggists the important duty that has been laid upon him." The second circular brought in a large number not secured by the first, the names of several of the defendants being found in the published list. The resolution, under which this action was taken, did not suggest the specific use which was expected to be made of the information conveyed by the publication; but several, who had given in their adherence to the plan, having fallen by the way, an Honor Roll was proposed later on, which should contain the names of those wholesale druggists and job-

bers who refused—in the words of the committee—"to have any business dealings whatever with unfair price demoralizers;" to be made up according as favorable response was made to the circular, and to be published the same as the other in the N. A. R. D. "Notes." In this connection, in the issue of January 22, 1904, the following assurance was given, anticipating somewhat the argument of counsel, "There is no federal or state law that can possibly be construed in such a way as to compel any jobber to sell goods he has bought and paid for to any person or persons he does not want to. This is a free country * * * where freedom of trade within its borders is guaranteed by constitutional provisions; and each wholesaler has an inalienable right to frame for himself a selling policy in accord with his own ideas of what is best for his individual interest and the trade at large, and then to adopt and put this policy into effect."

There were other and further suggestions, from time to time, for concerted action against price cutters, in line with what has been so referred to; such as requiring salesmen to have cards of identification and regularity; providing for the advancing and making uniform the prices of prescriptions; having proprietors refuse to patronize newspapers where cut prices were advertised; and doing away with the necessity for a special request from local Retail Associations, in order to have Wholesalers refuse to sell to aggressive cutters; all, except perhaps the last, emanating from and being advocated by the National Retailers Association. But it is not necessary to follow the matter further. Sufficient has been given to

show the character of the combination in restraint of trade, which is charged; and the only question is as to the law which is to be applied. It is contended on the one hand, that no unlawful combination is made out, the manufacturers of proprietary goods having the right to decide, each for himself as was done, to whom and upon what terms and conditions he would sell, or whether he would sell at all, it making no difference, provided his policy in this regard was individual, whether it coincided with a similar policy adopted by others of the same class or not, nor that the action, so taken, was to that extent concerted. The Tripartite agreement, to which alone the Proprietors subscribed, was not, according to this, unlawful; and as to anything after that, to which they did not agree, or which they did not recognize or subscribed to, such as the so-called "Resolution C" with its Honor Roll and White List, got up by the Secretary of the Retailers, on his own motion, under it, they are not answerable; and these were therefore improperly admitted in evidence against them. It is argued on the other hand, that the combination and conspiracy, for which action is brought, is not to be limited to the Tripartite agreement, or the sale of Proprietary medicines to which it related, which was however, unquestionably, an unlawful restraint of trade, within the meaning of the act. But that it is to be taken as extending to everything which was done concertedly to carry out the prevailing idea, to which the defendants individually and collectively subscribed, which was to cripple and drive out of business, by coercive measures, such cutters of prices as seventy-five per cent.

of the local trade, at any given place declared obnoxious. This, it is claimed, was the real conspiracy, of which the various steps taken were merely manifestations or overt acts, including "Resolution C," the Roll of Honor List, &c., all of which were therefore admissible against the defendants generally.

Both contentions are right to a certain extent. Neither can be sustained in its entirety. Undoubtedly the originator and compounder of a proprietary medicine may shape his own policy and sell or withhold from selling as he pleases, according to supposed self-interest or whim, fixing the prices and naming the terms and conditions at and upon which alone he will do so, refusing to those who will not comply. And so far as this is confined to his own goods, and pursued by independent and individual action, it cannot be challenged. *It is quite a different matter, however, when two or more combine and agree that neither will sell to any one who cuts the prices of any of the others. This concerted policy, by which it is sought not only to maintain by each the price of his own medicines, which alone he is interested in or has the right to control, but also the prices on those of all who are thus banded together, is manifestly a direct interference with and restraint upon the freedom of trade, which in commerce between the states it* was the object of the Act of Congress to preserve. As in every conspiracy, it is the joining together of a number that counts, and that the individual has to fear. It is true that a common plan or policy does not necessarily mean a combined one. The individual manufacturer or proprietor may be persuaded, for example, that the

retailer, or jobber who cuts the medicines of his neighbor to-day, will likely cut his medicines to-morrow, and so decide not to sell him. And it will not make out a conspiracy that others are of the same mind. If that was all there was to the present case, it would be easily disposed of. But unfortunately for the defendants, it is not. The policy adopted and pursued with respect to aggressive cutters and those who sold to them was not that of the Proprietors only, acting independently, each with regard to his own, according to what seemed to him good. The arrangement was Tripartite, in which all the affiliated associations of the drug trade were involved, Proprietors, Wholesale distributing agents or jobbers, and Retailers, the latter, if anything, dominating it, evolved after extended agitation, discussion and conference, to which the members were individually and collectively bound, disciplinary and coercive measures being provided against any who proved recalcitrant. Let a patent medicine man or Wholesaler disregard it sterms and he was quickly given to understand, that if he catered to the aggressive cutter he could not expect the custom of the organized Retailer, between whom it did not usually take him long to decide. He became, if he persisted, an unfair trader, to be treated accordingly, until he repented and was reinstated, after acknowledging the error of his ways and agreeing to transgress no more. Against this discipline, and with this rod held over them, it is needless to say that there wee few who went astray, and still fewer who held out. There was perhaps a murmur here and there, a question raised as to whether they might not overstep the law, and a recognition that they were

close to the line. But it was met by assurances such as that quoted above, or by suggestions of escape by individual action, which can hardly be expected to deceive. Nor did, indeed, the individual proprietor control his own prices, nor determine to whom his goods should go. This was done for him in the cities by the local associations of Retail Druggists, into whose hands he thus committed himself. The prices which should there prevail were of their naming, and aggressive cutters were those who did not maintain them, who were ferreted out and reported by the Retailers' agents. All this and more was part and parcel of the Tripartite plan, to which the proprietary, as well as the wholesaler, bound himself when he entered into it.

If co-operation and concerted action such as this does not make out a combination and conspiracy in restraint of trade, it is difficult to see what would be effective to do so. The combination is clear and has been demonstrated. So also is the restraint of trade. That indeed was the avowed purpose of it, which was not simply to put the aggressive cutter out of business, but to maintain prices to the consumer by this means, as they would not be maintained if left to themselves. It seems incredible, except as the trade in patent medicines is known to be immense, but it is confidently asserted by those having the right to speak, that the cost to the country of the Tripartite agreement amounted to $90,000,000 in six years. The general public, as usual, have thus been made to foot the bill. That this constitutes in law, as in fact, an unlawful combination in restraint of trade, within the

meaning of the act, there can be no doubt. Whatever may be decided elsewhere, the question is set at rest by *Addyston Pipe Co.* v. *U. S.*, 175 U. S., 211, and *Montague* v. *Lowry*, 193 U. S., 38, which control. In the former there was a combination among certain manufacturers of cast iron pipe, controlling two-thirds of the business in states of the South and West, by which they agreed to advance the prices to the consumer, by abolishing competition between them, parcelling out the territory and fixing the prices at which sales should be made therein, going through the form of bidding against each other at times, as a blind, the prices and the successful bidder in each case being prearranged. It was sought to defend this action because the restraint was only partial, not extending to the whole United States. Also that the monopoly secured was not complete, being tempered by fear of competition from others not in the arrangement, and affecting only a modicum of the price. And again, that the prices fixed were reasonable and within those which were being continually and unrestrainedly made, simply doing away with ruinous competition, to which the parties had a right. But these and other arguments were put aside, and the case declared to be one prohibited by the act. "It is the effect of the combination," says the court, "in limiting and restricting the right of each of the members to transact business in the ordinary way, as well as its effects upon the volume or extent of the dealings in the commodity, that is to be regarded." So in *Montague* v. *Lowry*, by an agreement between Eastern manufacturers of tiles and certain dealers in San Francisco

and vicinity, an association was formed whose by-laws provided that no manufacturer should sell to any dealer not a member, nor should any dealer sell to the same except at certain list prices, which were fifty per cent. higher than those at which sales were made to other members; membership also being confined to those who carried on an average stock of not less than $3,000 and who were acceptable. The plaintiffs were dealers in San Francisco, where they had built up a business, but were not members of the association and were not eligible. And after its formation they found themselves unable to buy to advantage, being restricted to dealing with San Francisco parties, to whom they were compelled to pay the extra prices listed. On a suit against the Association for damages under the act, a verdict for the plaintiff was sustained, the case being held to be clear. It is useless, in the face of these authorities, to urge upon us the decision in *Park* v. *National Druggists Association*, 175 N. Y., 1, where a different conclusion has apparently been reached. It is to be noted, however, with regard to that case, that the agreement there, as viewed by the majority of the court, was merely to sell to all wholesale distributing agents at uniform rebate prices, so that the small dealer with limited capital was put on a par with the large ones whose capital was more ample, thus tending to fairness and equality, on which stress is laid. There was however the further provision (to say nothing of other restrictions) that until a Wholesaler agreed to the plan he could not buy of any member of the Association whatever; in view of which three of the judges dissented; the case being still further weakened as an

authority, by the failure of the majority to altogether agree in their reasoning. At the best therefore it is near the line, and in no event can it be taken, contrary to the cases cited, as giving the law here.

So far then as the present case was kept within the limits indicated by these observations, it was correctly disposed of and is to be sustained. But outside of them not. Unfortunately it did not stop with the Tripartite agreement and the action taken under it, but went on to Resolution C with its Honor Roll and White List. It is urged that these were merely further steps in the general combination and conspiracy, to get rid of the aggressive cutter, on which all were determined, and for which therefore by whomsoever taken all were bound. But this fails to note several things, speaking broadly no doubt there was a general purpose, or conspiracy if you will, to drive the plaintiff and others like him out of business, to which in entering into the Tripartite agreement the parties committed themselves. At the same time, however, there was a selection of methods. Not only was a general policy declared for, but a definite line of action under it, adopted after extended consideration and conference, which could not be varied from at will. In accepting the Tripartite plan, they did not necessarily agree to anything and everything which might be done in its name, and particularly not to Resolution C, which was recognized as a new and decidedly advanced step, except to work a radical change. As already stated, this project emanated from the National Retail Druggists' Association, in annual convention assembled at Cleveland in 1902.

But even among the Retailers there were those whom doubted the propriety as well as the legality of it; as witness the remarks of the President, at the annual meeting just before that, at which, having been proposed, it was promptly voted down. Nor was it ever adopted by the Proprietors or the Wholesalers as a body, the only assent given to it being individual, and by no means by all. This was secured by direct appeal, and the circulars sent out were addressed to "manufacturers and dealers in Non-Tripartite goods," showing that a different class was intended to be reached.

No connection except the most general one is thus established between the Tripartite agreement and Resolution C, and they are not to be taken as one and the same plan. They may not differ much in principle, but they do decidedly in results, pressure being put upon the aggressive cutter as it had not by any means before. By the one, he was merely deprived of patent medicines, as to which, right or wrong, the proprietor might feel that he had a certain freedom to sell or withhold, the same as is argued here. But by the other, he was cut off from the most ordinary druggists' supplies, even toothbrushes and sponges being denied. A retailer cannot do much, it is true, without proprietary goods on his shelves; but without drugs and pharmaceuticals, he cannot put up a single prescription, and might as well go out of business, and that indeed was what Resolution C was designed to bring about. This was an excursion into a new field and to whatever else short of that the proprietor or wholesaler was committed, he

might not care to go that far. He was at least entitled to have it distinctly presented for his acceptance, before being bound, and his assent is not to be implied simply because he had agreed to what had gone before. He did not put himself indiscriminately and to all lengths into the hands of his associates. The trade recognized that this was the case, and that there were classes among the wholesalers, as shown by the publication, called "Notes," of May 21, 1904, where those operating under the Tripartite agreement are set apart from those operating under Resolution C. This may not be conclusive, but it is significant, and confirms, as it confirms, as it corresponds with our own views.

As distinguished by parties also the combination was new. No doubt there were many who had agreed to the Tripartite plan, who also agreed to Resolution C. But there were some who did not, who are defendants here, as well as some who agreed to the Resolution alone. They divide on these lines and cannot be brought together as one, so far as anything has been shown. And neither, as the result, can a joint action be maintained. As the case stands, however, all are made liable without distinction, for all that has been done, both under the Tripartite agreement, as well as Resolution C, both being put in evidence against them all. It may be, that a person who joins a conspiracy at an advanced stage of it makes himself party to what has been done in pursuance of it before. 3 Cr. Ev. Sect., 93 Lewis' Ed., 8 Cycl. Law & Prac., 658. But this must be with knowledge, and in promotion of the common cause. And even though, upon this

basis, those wholesalers, who with knowledge of the existing purpose to drive aggressive cutters out of business, lent themselves to this design, by denying him their goods as called for by Resolution C, would be held for the damages resulting from the whole scheme; still, as already pointed out, there is too wide a divergence between the original Tripartite plan and this later extreme development of it, to make those who merely agreed to the one committed irretrievably and without question, to both.

Upon the whole case, therefore, we reach the consultation, that Resolution C was inadmissible to charge those who had *not* assented to it and should not have been received in evidence, nor anything done under it. The wrong which was committed by its adoption and enforcement was separate and distinct from that which resulted from entering into and carrying out the Tripartite plan, as were also the damages experienced therefrom. The plaintiff in this request pressed his case too far. He had a good one against some of the defendants under the Tripartite agreement; and another against others under Resolution C; and against some, no doubt, upon both. But not against all. And there was the mistake. A joint tort being charged, not only had it to be proved as laid; *Howard* v. *Union Traction Co.*, 195 Pa., 391; *Wiest* v. *Traction Co.*, 200 Pa., 149; *Rowland* v. *Philadelphia*, 202 Pa., 50. But the defendants had all to be liable for all that was resolved upon or done. This in the view we take of it was not the case, and the judgment must, therefore, be reversed also upon this ground. This reversal is general and applies to all the defend-

ants which renders it unnecessary to consider the special argument which was made for some. It will be for the trial judge, when the case comes up again, to determine, in the light of what has been said, how far they and others can be held.

Judgment reversed and a new trial awarded.

EXHIBIT L.

United States Circuit Court of Appeals,
For the Second Circuit.

Paris Medicine Company,
—against—
Complainant-Appellee.
Hegeman & Company,
Defendant-Appellant.

ORAL DECISION UPON THE LAW DELIVERED BY JUDGE WALLACE AT THE CLOSE OF ARGUMENT, MAY 1, 1907.

After outlining the nature of the system of contracts involved, the court continued in substance as follows:

The manufacturer has a right to fix the price of his products. Under a misapprehension yesterday, I stated during the argument that this court was careful in affirming *Wells & Richardson* v. *Abraham* (146 Fed., 190), not to affirm the opinion rendered by Judge Thomas in the Court below. Since then, I have refreshed my recollection and state that this court

adopted his opinion (149 Fed., 408). While this is a new and unsettled question, this court felt inclined to consider the question of the validity of such a system of contracts, although the appeal in that case was from an order granting a preliminary injunction. The members of this court are all agreed upon the law that such a system of contracts is entirely legitimate and lawful in connection with the manufacture and sale of such a product. The decision by the Circuit Court of Appeals for the Sixth Circuit (*Park & Sons Co.* v. *Hartman*, decided March 1, 1907) has in no wise shaken that view, and we take issue with that court upon this question.

The persons parties to these contracts are, to a certain extent, agents and fiduciaries and a breach of faith upon their part is more than a mere breach of contract. They are in a position of trust and confidence. Any inducement to violate such fiduciary relations is actionable and as such acts lead to cutting of prices among the dealers and the consequent breaking down of the system for the preservation of the standard price, damages at law are inadequate. In all cases where by collusion with these agents or by fraud such contracts are broken, equity should interfere.

No enforcement of restrictions is involved and the cases upon these questions are distinguishable in that there is an adequate remedy at law. On the foregoing grounds, this court affirmed the decision of Judge Thomas in the Wells & Richardson case, although it was a new question.

Hence there are two questions of fact in this case.

The first question is: Do the affidavits show that the defendant has clandestinely or with collusion purchased the article from agents of the complainant? Upon this, there is considerable doubt.

The second is: Will the court protect complainant? The court believes that one of the ingredients of this medicine is a very dangerous drug and should be used with the advice of a physician. The court does not regard this as a moral defense or one to which it can consider the interests of defendant. But we have a public duty; the sale of this medicine apparently tends to deceive the public and endanger its health. Certainly no court will aid a complainant in such case.

The evidence upon these points is elaborate and extensive. Decision upon these facts is reserved. Counsel will understand, that the decision which will be rendered will be in accordance with the answers which the court determines should be made to these questions of fact.

EXHIBIT O. M.

No. 1581.

United States Circuit Court of Appeals,

Sixth Circuit.

John D. Park & Sons Company
v.
Samuel B. Hartman.

} Appeal from the Circuit Court of the United States for the Eastern District of Kentucky.

SUBMITTED JANUARY 14, 1907.

DECIDED MARCH 5, 1907.

Before Lurton, Severens and Richards, Circuit Judges:

The plaintiff below is a manufacturer of certain proprietary medicines, the chief of which is the well known article called "Peruna." This together with other preparations he puts on the market through a system of contracts intended to maintain prices. Thus it is averred that he sells only to jobbers or wholesalers at uniform prices with a discount varying according to quantity. Each such jobber is required to sign a written agreement to sell only to retailers whose names shall be furnished by complainant and who shall have signed a retailer's agreement with him obligating them to sell only to consumers at a price named by the complainant or found on his labels and wrappers. To enable him to discover violations of the agreement to sell only for consumption and only to consumers, each such retailer is required to stamp or write his name on each bottle or package

sold, and to insure against sales by wholesalers to unlicensed retailers, each sale must be reported to the complainant. The averment is, that there has grown up a very large demand for "Peruna" and that such contracts have been made with jobbers and wholesalers all over the United States and that "a majority of the retail druggists of the country have executed such contracts."

The defendant is a corporation organized under the laws of Kentucky and is engaged in the jobbing or wholesale drug and proprietary medicine business. It is charged that the defendant company, with full knowledge of complainant's method of contracting the sales of "Peruna," has refused to enter into any contract with the complainant and is not therefore entitled "to buy or deal in your orator's medicines and remedies." It is then averred, that defendant company, in combination with other wholesalers and retailers, who have refused to sign complainant's contracts, has "unlawfully and fraudulently obtained and procured your orator's remedies and medicines, including 'Peruna,' from your orator's wholesale and retail agents, both directly and indirectly, by means of false and fraudulent representations and by surreptitious and dishonest methods, and by persuading, directly or indirectly, your orator's wholesale and retail agents, under contract with your orator as aforesaid, to violate and break said contracts and sell and supply your orator's remedies and medicines, including 'Peruna,' to said defendant and after having procured" same, has advertised and sold same to dealers at less than the established price and less than the

jobbing prices. It is also averred, that for the purpose of rendering it difficult to trace such purchases, the defendant obliterates the serial number placed in such carton and defaces and takes off the distinctive wrappers, etc., and in that condition sells the same. All of which conduct is averred to have resulted in "irreparable injury and damage" to complainant's system of trade and that defendant gives out that it will continue its said conduct. The prayer of the bill is that the defendant be enjoined "from in any manner inducing or persuading, or attempting to procure, induce or persuade, directly or indirectly," any breach of any such sales agreement as stated, "and from procuring or attempting to procure, in any way your orator's remedies or medicines, directly or indirectly, from any wholesaler or retailer who has executed such wholesale or retail agency contract with your orator in violation of same;" and "from advertising, selling or offering for sale the remedies and medicines of your orator obtained in or by any of the means aforesaid at prices less than the established retail price thereof, or to wholesale or retail dealers who have not entered into wholesale or retail contracts with your orator," and from mutilating or removing the cartons, wrappers or labels upon the bottles, etc. The usual prayer for an accounting concludes the bill.

The defendant demurred for want of equity and specially to so much of the bill as sought to enjoin the defendant from mutilating labels, cartons or wrappers, etc. The demurrers were overruled and an injunction awarded *pendente lite* in the very terms of the bill.

From this interlocutory injunction this appeal has been perfected.

Lurton, circuit judge, after making the foregoing statement of the case, delivered the opinion of the court:

The system of contracts by means of which the complainant proposes to retain control of all sales and resales of its goods is not unique. It was first applied to commodities made under patents or productions covered by copyright. According to one of the averments of the bill, the same system of contracts has been generally adopted by the wholsale and retail druggists of the United States. But this, we take it, means no more than it has been adopted as a plan for maintaining prices and controlling sales of proprietary medicines, a business which amounts to more than sixty millions of dollars annually. That the same plan has been extended to sales in respect to other commodities, not coming under the peculiar claims advanced for "patent" medicines, we may take notice. The question in its shortest form is, whether the exemption from common law rules against monopoly and restraints of trade, and the provisions of the Federal Anti-Trust Act, which has been extended to contracts affecting the sale and resale, the use or the price of articles made under a patent or productions covered by a copyright, extend also to articles made under a secret process of medicine compounded under a private formula. The fundamental position of counsel for the complainaint is, that in principle there is no distinction between the monopoly secured to a patent or copyright and the monopoly of

a trade secret, and they advance and defend the claim that articles made under patents, copyrights and trade secrets may lawfully be contracted for and sold under any conditions and limitations with respect to price and sub-sales which the vendor chooses to impose, and that "contracts relating to any such articles are not within the restraint of trade rules." If this contention is sound, the contracts under which the complainant conducts his business are legal and no question remains but a consideration of the matter of the relief equity may give against one not a party to such contracts under the facts of this case.

That articles made under patents may be the subject of contracts by which their use and price in sub-sales may be controlled by the patentee, and that such contracts, if otherwise valid, are not within the terms of the Act of Congress against restraints of interstate commerce or the rules of the common law against monopolies and restraints of trade, is now well settled. *Heaton-Peninsular Button Co.* v. *Eureka Specialty Co.*, 77 F., 238; *Dickerson* v. *Tinling*, 84 F., 192; *Edison Phonograph Co.* v. *Kaufmann*, 105 F., 960; *Edison Phonograph Co.* v. *Pike*, 116 F., 863; *Rupp et al.* v. *Elliott*, 131 F., 730; *Victor Talking Machine Co.* v. *The Fair*, 123 F., 428; and *Bement* v. *National Harrow Co.*, 186 U. S., 70. The patent grants an exclusive right to use, to make and to sell. The patentee may grant, if he will, an unrestricted right to make and sell or use the device embodying his invention or may grant only a restricted right in either the field of making, using or selling. To the extent that he restricts either one of these separable rights, the

article is not released from the domain of the patent, and anyone who violates the restrictions imposed by the patentee, with notice, is an infringer. This is the ground upon which the cases stand which uphold restrictions upon either use or sale of a patented article where infringement is alleged. But when a patentee imposes such restrictions they may likewise constitute a contract between the patentee and his direct vendee or licensee. In such case the patentee would have a double remedy, an action in tort for infringement, or an action for the breach of the contract. The double remedy in such circumstances is noticed in *Heaton-Peninsular Button Fastener Co.* v. *Eureka Specialty Co.*, 77 F., 288, and in *Victor Talking Machine Co.* v. *The Fair*, 123 F., 424. In *Bement* v. *National Harrow Co.*, 186 U. S., 70, the action was one for breach of a contract by which the patentee had suffered his invention to be used on condition that the articles embodying it should not be sold below a certain price. In *National Phonograph Co.* v. *Schlegel*, 128 F., 733, the bill was not to restrain infringment, but to enjoin sales by a vendee who was a jobber and who by direct contract had purchased phonographs made under the patent, agreeing to sell only at a named price and only to retailers who signed an agreement regulating retail sales. Whether a remedy is sought for the violations of restrictions placed by a patentee, upon either the use or the sale of an article made under the patent, is in tort or in contract, the rules of the common law in respect of monopolies and restraints of trade have no application, because the very object of the patent law is to give to the patentee

an exclusive monopoly in using, making and selling the device which embodies the invention, and this exclusive right he may exercise by contracts under which he reserves to himself so much of his exclusive right as he does not elect to sell or assign or license. It follows, therefore, that contracts restraining subsequent sales or use of a patented article which would contravene the common law rules against monopolies and restraints of trade, if made in respect of unpatented articles, are valid because of the monopoly granted by the patent, *Bement* v. *National Harrow Co.*, 186 U. S., 70, 91, 93; *Edison Phonograph Co.* v *Kaufmann*, 105 F., 960; *Edison Phonograph Co.* v. *Pike*, 116 F., 863; *Victor Talking Machine Co.* v. *The Fair*, 123 F., 424. In the Bement case, cited above, the action was at law to recover liquidated damages for the breach of a contract in respect of the price at which articles made under a patent should be sold. The court among other things said:

> "The very object of these laws is monopoly and the rule is, with very few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal."

In regard to the provision in respect to price the court said:

> "The provision in regard to the price at which the licensee would sell the article manufactured under the license was also an appropriate and reasonable condition. It tended to keep up the price of the implements manufactured and

> sold, but that was only recognizing the nature of the property in, and providing for its value as far as possible. This the parties were legally entitled to do. The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may assign it or sell the right to manufacture and sell the article patented upon the condition that the assignee shall charge a certain amount for such article."

It was urged in the same case that the stipulations restricting the price at which sales might be made was in violation of the Act of Congress of July 2, 1890, 26 Stat., 209, upon the subject of trusts and restraints of interstate trade, but the court held that the act did not apply to contracts in relation to patented articles, saying:

> "But that statute clearly does not refer to that kind of a restraint of interstate commerce which may arise from reasonable and legal conditions imposed upon the licensee or assignee of a patent by the owner thereof, restricting the terms upon which the article may be used and the price to be demanded therefor. Such a construction of the act we have no doubt was never contemplated by its framers."

In *National Phonograph Co.* v. *Schlegel,* 128 F., 733, the same reasoning was followed and the validity of an agreement restraining prices held to be a valid contract, because it related to a patented article. There are such wide differences between the right of multiplying and vending copies of a production protected by the copyright statute and the rights secured to an inventor under the patent statutes that the cases which relate to the one subject are not altogether controlling as to the other. See *Bobbs-Merrill*

Co. v. *Straus,* 147 F. R., 15, 23. Nevertheless, the statutory right to exclusively publish and vend copies of a copyrighted production would seem to take direct contracts between the publisher and his vendees in respect to the price at which subsequent sales shall be made outside of the rule as to restraints of trade which might otherwise apply (*Murphy* v. *Christian Press Assn.,* 38 App. Div., N. Y., 426).

But one who makes or vends an article which is made by a secret process or private formula can not appeal to the protection of any statute creating a monopoly in his product. He has no special property in either a trade secret or a private formula. The process or the formula is valuable only so long as he keeps it secret. The public is free to discover if it can by fair and honest means, and when discovered anyone has the right to use it (*Chadwick* v. *Covell,* 151 Mass., 190; *Tabor* v. *Hoffman,* 118 N. Y., 30; *Peabody* v. *Norfolk,* 98 Mass., 452; *Vulcan Detinning Co.* v. *American Contracting Co.,* 58 Atlantic, 290). In *Chadwick* v. *Covell,* Justice Holmes, speaking of the character of the title one has to a secret formula, said:

> "Dr. Spencer had no exclusive right to the use of his formulas. His only right was to prevent anyone from obtaining or using them through a breach of trust or contract. Anyone who came honestly to the knowledge of them could use them, without Dr. Spencer's permission and against his will (*Peabody* v. *Norfolk,* 98 Mass., 452, 458; *Morrison* v. *Moat,* 9 Hare, 241, 263; *Williams* v. *Williams,* 3 Meriv., 157). The defendant got his knowledge honestly, and therefore has a right to make and sell the medicines.

> Having the right to make and sell the medicines, the defendant has the right to signify to the public that the medicines are made according to the formulas used by Dr. Spencer."

In *Tabor* v. *Hoffman,* cited above, the New York court said:

> "If a valuable medicine, not protected by patent, is put upon the market, anyone may, if he can by a chemical analysis and a series of experiments, or by any other use of the medicine itself aided by his own resources only, discover the ingredients and their proportions. If he thus finds out the secret of the proprietor, he may use it to any extent that he desires without danger of interference by the courts."

But in the case of a patent the monoply endures for the whole term of the patent. It gives the patentee the right to control the use of his invention during the entire period, and he may rightfully protect by contract his power to regulate all manufacture, sale or use of things embodying his invention. It is this continuity of the right granted to the patentee which distinguished it from the right to manufacture, sell or use unpatented articles.

If a man shall make a new invention or make a new discovery and it is useful, he may obtain a patent and thus secure a reward. But even then, he must pursue the prescribed course in order to obtain it. He may keep his secret if he can. But if he puts upon the market things embodying it, he forever loses his right to acquire a monopoly in it, *i. e.,* to obtain a patent, either for manufacture, sale or use.

But it does not follow that because the owner of a

secret formula cannot protect himself against discovery of his secret by fair means, that he cannot protect himself against a betrayal of his secret by one who has received it through confidential relations (*Jarvis* v. *Knapp,* 121 F., 34; *Harrison* v. *Glucose Co.,* 116 F., 304, 311; *Tabor* v. *Hoffman,* 118 N. Y., 30; *Morrison* v. *Moat,* 9 Hare, 241; and *Chadwick* v. *Covell,* 151 Mass., 190.

So also will the owner of a secret process or formula be protected against a breach of contract, when the secret is communicated in confidence and under restrictions as to its use (*Fowle* v. *Park,* 131 U. S., 88).

In *Fowle* v. *Park,* the owner of the formula sold the right to make the remedy and sell it under its trade name at a restricted price within a given territory. The court enjoined the breach of this agreement. The conclusion of the learned chief justice who wrote the opinion of the court, seems to rest, not upon any notion that contracts touching the sale of a secret formula or trade secret were outside the rules of the common law in regard to restraints of trade, but rather upon the theory that such contracts were governed by the principle against restraints, but valid because the covenants were made in connection with the sale of a business and not larger than necessary to protect the reserved rights of the assignor to carry on the same business. In *Central Transportation Co.* v. *Pullman Palace Car Co.,* 139 U. S., 24, 53, Justice Gray seems to have rested the legality of such covenants upon the peculiar nature of the property which is the subject of the sale, saying:

> "Upon the sale of a secret process, a covenant, express or implied, that the seller will not use the process himself or communicate it to any other person, is lawful, because the process must be kept secret in order to be of any value, and the public has no interest in the question by whom it is sold."

The most satisfactory ground upon which covenants restraining the use to be made of a trade secret may be said to not contravene the common law rules against monopoly and restraints lies in the peculiar character of the property right which is concerned. So long as the owner of such a secret can preserve its secrecy he has necessarily a monopoly in its use and there is no illegal restraint because he refuses to make it public. Neither is the public interest affected whether the process or formula is used by A or B or by both, for there can be no restraint of trade in respect of a method or formula which is known only to the discoverer and those to whom he chooses to communicate it under restrictions. Having no right to compel a publication, the public lose no right by respecting a restricted disclosure, for no freedom of traffic has been stifled. The language of Justice Holmes in *Board of Trade* v. *Christie,* 198 U. S., 236, in respect of contracts limiting the right of those who receive the market quotations to a special use, is equally applicable to trade secrets in general. The learned justice said:

> "But so far as these contracts limit the communication of what the plaintiff might have refrained from communicating to anyone, there is no monopoly or attempt at monopoly and no contract in restraint of trade, either under the statutes or at common law."

In *Ammunition Co.* v. *Nordenfeldt,* L. R., 1 Ch. Div., 630, 1894, Lord Justice Bowen said, that the sale of a trade secret was not within the mischief of restraint of trade, because, "unless such a bargain was treated as outside the doctrine of general restraint of trade, there could be no sale of secret processes of manufacture."

The basis of the common law protection accorded to an author is the same. His legal rights grow out of the peculiar nature of the property. His composition is properly regarded as his absolute property. He need not disclose it. But the unrestricted offer of a single copy to the public operates as a disclosure or publication, and his exclusive right to make other copies is gone. But he may in confidence exhibit his work under restrictions and this, like the confidential disclosure of a trade secret, will not amount to a dedication to the public and he will be protected against a violation of the conditions imposed.

The whole subject of the common law rights of an author is so fully and carefully discussed by Judge Townsend in *Werkmeister* v. *American Lithographic Co.,* 131 F., 321, and in *Bobbs-Merrill Co.* v. *Straus,* 147 F., 15, that it would be a work of supererogation to again go over the subject.

The cases relating to the distribution of news and information rest also upon the peculiar kind of property rights involved. So long as one, who by his own industry has gathered together news or information and does not disclose it, he can not be compelled to make publication. The matter is his own

in as true a sense as a secret or private formula, or the composition of an author. In such circumstances it is not illegal to protect the news gatherer against the piratical use of his news and prevent a public disclosure by one who has placed himself under obligation to respect a restricted use. In such case public disclosure is destructive of its value as property. *Board of Trade* v. *Christie,* 186 U. S., 236, 250; *Jewelers' Mercantile Agy.* v. *Jewelers' Pub. Co.,* 84 Hun, 12, 155 N. Y., 251; *National Tel. News Co.* v. *Western Union Tel. Co.,* 119 F., 294; *Exchange Tel. Co.* v. *Gregory, etc., Co.,* 1 Q. B. Div., 147 (1896); *F. W. Dodge, etc., Co.* v. *Construction Co.,* 183 Mass., 62. In the Board of Trade case, cited above, Justice Holmes, speaking of the protection granted to the business of distributing stock quotations, said:

> "In the first place, apart from special objections, the plaintiff's collection of quotations is entitled to the protection of the law. It stands like a trade secret. The plaintiff has the right to keep the work which it has done, or paid for doing it, to itself * * *.
>
> The plaintiff does not lose its rights by communicating the result to persons, even if many, in confidential relations to itself, under a contract not to make it public."

The trading stamp and railroad ticket cases, such as *Sperry & Hutchinson Co.* v. *Mechanics' Clothing Co.,* 135 F., 833, and *Nashville, etc., Ry. Co.,* v. *McConnell,* 82 F., 65, likewise rest upon the peculiar character of the property rights involved. Neither concern the buying and selling of articles of general commerce, and both relate to things in the nature of contracts personal in character, and not to things

which can ever become the subject of general trade and traffic.

But it does not follow, that because a secret process or formula for a medicine or beverage will be protected against betrayal by employes or those to whom it has been communicated in confidence under a contract for a restricted use, that a system of contracts for the control of all sales and sub-sales of the device, medicine or beverage when once made will be outside of the rules in restraint of trade simply because the product of such secret process or formula. We have here to deal not with contracts which relate to the secret formula itself, or the right to use a trade name or dress, as in *Fowle* v. *Park*, 131 U. S., 88, but with the preparation when made by the owners of the process. The preparation when ready for the market and the formula are two separate and distinct things and may have distinct ownerships. Contracts in respect of a restricted use of the formula are not within the rule against restraint because of the character of the property rights in such a secret. There can be no unrestricted use, before discovery by fair means, to which the owner does not consent, and then only at the expense of the destruction of its commercial value as a secret. But this is not the case with contracts which affect only traffic in the manufactured product of the secret formula. Freedom of traffic in that is consistent with its value and does not involve exposure of the formula.

Neither is there any such analogy between an article made under a patent and an article made

under a secret formula as to require like exemptions from the rules which relate to articles made under neither. It is well at this point to notice that the exemption from the rule against restraint has never been extended to contracts in respect of articles made under a patent which has once passed beyond the domain of the patent by an original sale without restriction. The only reason which has ever been given for holding that a contract restricting the field of using, selling or making of an article made under a patent is that the patent statute has granted an exclusive monopoly which cannot be cut down by the rule against restraint for that would be to grant a monopoly by law and then proceed to take it away by law.

But if the owner of a secret process or a private formula does not or cannot bring himself under the protection of the patent statute by securing a patent upon his discovery he cannot claim the advantage of the statute. The patent law, in consideration of a full and complete publication of the discovery or invention of the patentee, has granted to him a monopoly of his invention, including the making, selling, and using of devices embodying it, for a limited term of years. At the end of that time the disclosure made at the time be applied for his patent will enable the public to enjoy his discovery and thus find compensation for the exclusive right temporarily conceded to the inventor. No statute grants any such monopoly to anyone who does not elect to avail himself of the benefits of the patent or copyright law. A trade secret or medical formula protects its

owners only against those who acquire it under a confidential obligation to guard against disclosure, and, as we have already seen, one is free not only to use the process or formula if discovered by skill and investigation without breach of trust, but to make and sell the things or preparation *as made by the process or formula of the original discoverer, if that be the truth. Chadwick* v. *Covell,* 151 Mass., 190. To say that the owner of this secret need not make the medicine, nor sell it when made, unless it suits his convenience, is true. But the same thing may be said of the man who grows potatoes. He need not grow them and need not sell them when grown. But if something be conceded in favor of an article which no one can produce except the owner of the formula over one which any one can produce, what shall it be? There is no statute creating a lawful monopoly such as seems to take articles made thereunder without the rule against illegal restraint. Neither will the commercial value of the manufactured product vanish if subjected to the principles which apply to the things not so made. None of the reasons which apply to patented articles, copyrighted productions, or to restricted disclosure of the secret formula itself apply to the product of the formula.

Without assenting to the claim that the making and selling of the preparation is a "publication" in the technical sense of that term, we are, nevertheless, unable to discover any legal or economic reason which justly exempts such articles when made from all the rules of the common law which forbid unrea-

sonable restraints in trade and from the Anti-Trust Act of Congress in so far as trade in the prepared medicine is the subject of interstate commerce. Judge Cochran, who heard this case below, after considering the differences between a secret process and the article made, said:

> "What is there, then, in the nature of the articles made under a secret process to occasion any difference between them and articles not so made or between them and articles which one may not have made at all, but simply owns, in the matter of the validity of restraining contracts entered into by the purchasers thereof from the owner? It is hard to conceive of any. It is true that the manufacturer and owner of the articles made under the secret process may refrain from making them and selling them to purchasers and thus putting them on the market. Equally so, the manufacturer and owner of any other articles may refrain from so doing. So, also, the owner of articles that he has not made, but purchased or obtained otherwise from the manufacturer may refrain from selling them to purchasers and thus putting them on the market. Suppose the owner of a patent should sell all the articles made under it to another with license to use or resell them, thus passing them outside of the monopoly of the patent hands of the purchaser, would the mere fact that they had been made under the patent lend any sanctioning force to a restraining contract entered into in reference thereto by a sub-purchaser thereof? I must conclude, therefore, that the fact that the complainant's medicine has been made under a secret process has no effect whatever upon the validity of the system of contracts involved herein. He has no greater rights in relation thereto, as distinguished from the secret process under which it was made, than the owner of any other tangible personal

property, whether made by him or not, would have in relation to such property."

Although Judge Cochran concluded that the complainant's preparations were no more exempt from the common law rules against restraints of trade by reason of the fact that they had been prepared under secret formulas than if that had not been the case, he reached the ultimate conclusion that any vendor of an article might make similar contracts to those in suit and that the control which was thereby secured over subsequent sales was not an unreasonable restraint of trade. Most of the cases which he cites in support of his conclusion are in conflict with the grounds upon which he rests his decision, and, indeed, the learned counsel for the Hartman Company have not assented to so much of Judge Cochran's opinion as holds that a trade secret remedy stands in no better plight than it would if the preparation had been disclosed upon the label. And so it has come about that the cases which have directly involved the Hartman system of contracts, and which are relied upon by counsel to sustain their legality, all stand upon the assumption that an article made under a secret formula may be the subject of contracts maintaining prices and controlling subsequent sales to as full an extent as an article made under a patent or a production secured by a copyright. The cases directly in point are all *nisi prius* decisions except *Jayne* v. *Loder,* 149 F. R., 21, decided by the 3d C. C. A., and are all quite recent. They include three cases in which the Dr. Miles Medicine Co. was the plaintiff, namely, *Dr. Miles Medicine Co.* v. *Goldthwaite,* 133 F. R., 794. The force of this case is weakened because the de-

cree was not resisted. The next is *Dr. Miles Medicine Co.* v. *Jayne Drug Co.*, not yet reported, decided by the same judge who decided the Goldthwaite case. The next is *Dr. Miles Medicine Co.* v. *Platt*, 142 F. R., 606. This was followed by *Wells & Richardson* v. *Abraham*, 146 F., 190, in which the legality of the contracts was not denied, thus lessening the value of the opinion as an authority. The ground upon which the two contested cases, cited above, was rested was the identity between the rights of a patentee and the owner of a mere trade secret or private formula with respect to the product or manufactured article. Thus, in *Dr. Miles Medicine Co.* v. *Jaynes*, cited above, Judge Colt said:

> "The contention of the defendants is that these contracts are unlawful because they are in restraint of trade. In support of this they do not rely so much upon the common law rule as upon the Federal statute, 26 Stat., 209.
>
> The bill alleges that the complainant is the exclusive owner of these secret formulas, and the exclusive manufacturer of these remedies. It follows that, until voluntary disclosure or lawful discovery, the complainant has an exclusive property in these trade secrets and has the exclusive right to make, and use, and vend the articles made thereunder. The exclusive right of property in a trade secret is of necessity a monopoly, the same as a patent or a copyright. The complainant may make these articles, or refrain from making them. It may sell them, or refrain from selling them. It may sell them to one person, and not to another, and at such prices and upon such conditions as it may deem most advantageous. Contracts like those set out in the bill concerning articles made under trade secrets, the same as similar contracts concerning articles made under a patent or copyright, are outside the rule of restraint of trade,

whether at common law or under the Federal statute. *Hartman* v. *Park*, 143 Fed. Rep., 358; *Dr. Miles Medical Co.* v. *Platt*, 142 Fed. Rep., 606; *Wells & Richardson Co.* v. *Abraham*, 146 Fed. Rep., 190; *Dr. Miles Medical Co.* v. *Goldwaite*, 133 Fed. Rep., 794; *Bement* v. *National Harrow Co.*, 186 U. S., 70; *Board of Trade* v. *Christie*, 198 U. S., 236, 252; *Garst* v. *Harris*, 177 Mass., 72, 74; *Fowle* v. *Park*, 131 U. S., 88, 97; *Park & Sons Co.* v. *National Wholesale Druggists' Association*, 175 N. Y., 1; *Standard Fireproofing Company* v. *St. Louis Company*, 177 Mo., 559; *Victor Company* v. *The Fair*, 123 Fed. Rep., 424; *Heaton-Peninsula Company* v. *Eureka Company*, 77 Fed. Rep., 288; *Central Shade Company* v. *Cushman*, 143 Mass., 353; *Good* v. *Daland*, 121 N. Y., 1."

In *Dr. Miles Medical Co.* v. *Platt*, 142 F. R., 606, 610, Judge Kohlsaat says:

"These suits are brought for an infringement or violation of the property right of the complainants in the secret processs owned or controlled by them. The right of a patentee, owner of a copyright, or owner of a secret process is merely the right of exclusion or debarment. The holder of such a property right, as said by the court in the Victor Talking Machine case, cited above, is a czar in his own domain. He may sell or not, as he chooses. He may fix such prices as he pleases. He may sell at one price to one person, and another to another person. He is not required to give reasons or deal fairly with purchasers. Why is it material, then, in a suit to prevent infringement of complainants' rights in their secret processes, to inquire whether complainants have entered into a combination or conspiracy to control the very thing they are lawfully entitled to control?"

Jayne v. *Loder*, cited above, was decided by the Third Circuit Court of Appeals.

It was an action under the seventh section of the Anti-Trust Act against a combination of three distinct National Associations, one that of the Wholesale Druggists, another that of the Retail Druggists and the Association of Manufacturers of Proprietary Medicines. The object of the combination was to exclude every dealer from trading in proprietary medicines at all, who would not consent to sell to members of the combine only and at prices named by it. *Arguendo* Judge Archibald did say that an individual proprietor might enforce his own terms in respect to his own goods. But this was not involved. The combination was in the teeth of the law whether an individual proprietor could or could not enforce such a system as that there involved.

If we are right in our conclusion that the manufactured product of a trade secret or private formula is not immune from the common law rules forbidding monopolies and unreasonable restraints in trade, the cases above referred to must be disapproved, at least in so far as they are grounded upon the cases which deal with articles made under patents or copyrights. In addition to the cases cited above, counsel for the appellees cite and rely upon *Park* v. *National Wholesale Druggists' Assn.*, 175 N. Y., 1. That case involved the validity of a method of doing business and a system of contracts between manufacturers of proprietary medicines and wholesale druggists dealing in such medicines for the purpose of suppressing competition in prices. The opinion does not support the validity of such a system of contracts with reference to medicines not protected by any patent, for the decision is bottomed upon the assumption that the

"proprietary medicines," the subject of the contracts then involved, *were made under patents.* Judge Haight, who delivered the opinion of the court said: "the matter in controversy has reference to the sale by manufacturers of those particular medicines or remedies covered by trade-marks, copyrights or patents which secure to the manufacturer or proprietor the exclusive right to manufacture and sell the same. These medicines are known as "proprietary goods" and their manufacture and sale are confessedly under the control and management of the owner or manufacturer, who may fix his own price and adopt such plan for the sale thereof as he, in his judgment, may determine."

To the objection that the contracts were in restraint of trade, he said:

> "Nor does the plan appear to me to be in restraint of trade. It is true that it does away with the competition among dealers as to prices, but it creates no restriction upon them as to the quantities that they may be able to sell or the territory within which they may confine their transactions; but upon the question of prices we must bear in mind that the goods are covered by patent rights and trade-marks, which give the proprietors the exclusive right of specifying prices at which the articles shall be sold, and following this, the right also to require dealers to maintain the prices specified."

The principle upon which *Park & Sons Co.* v. *National Wholesale Druggists' Association* was decided is emphasized in the subsequent case of *Straus* v. *American Publishers' Assn.*, 177 N. Y., 473, 477, where was involved the validity of an agreement between publishers of copyrighted books to regulate the

price at which retail dealers should sell such books. If the agrement had stopped there, the New York court thought the agreement valid and not in unlawful restraint of trade under the principles announced in *Bement* v. *National Harrow Company,* 186 U. S., 70, an opinion to which we have heretofore referred, which involved contracts for controlling prices of articles made under patents. After referring to the Bement case, Judge Parker, who had written a concurring opinion in the previous case, after setting out the reasoning of Justice Peckham in the Bement case, said:

> "That reasoning is employed as to patent rights. It is equally applicable to copyrights, the protection of which was perhaps the leading object of the association and agreement attacked in this action. And it points to the principle underlying the decision in the Park & Sons Co. case (175 N. Y., 1), upon which defendants apparently rest their claim that the judgment of the Appellate Division should be reversed. But there is a feature in this case not to be found in that one and which requires a different judgment than the one rendered therein—which will now be pointed out."

The dissenting opinion of Judge Martin, in case of Park & Sons Company (175 N. Y., 1), also proceeds upon the assumption that the subject-matter of the agreement concerned medicines made under patents (see page 42). The vice which the New York court found in the Straus case was, not that the agreement obliged publishers not to sell copyrighted books to dealers who would not maintain the retail price dictated by the publishers, *but that they also refused to sell uncopyrighted books* to all such dealers as did not maintain prices on copyrighted books. This the court found, under the facts of the case, would oper-

ate practically to exclude all persons from the business of selling uncopyrighted books who would not become parties to the agreement to maintain the price of copyrighted books, and tended to create a monopoly of sale of books not copyrighted. Touching this, the court said:

> "While the leading object and of this association and agreement purports to be to secure to the owner and publisher of copyrighted books that protection which the Federal Government permits them to enjoy for the reasons stated by Chief Justice Marshall (*supra*) it does not stop there. It also affects the right of a dealer to sell books *not* copyrighted at the price he chooses, or to sell at all if he fails to comply with the rules of the association. A combination creating a monopoly of the sale of books *not* protected by copyright offends against the law of this state as much as if it related to blue stone (164 N. Y., 401) or envelopes (166 N. Y., 292), and according to this complaint, which must be accepted as true on this review, such an outcome is not only possible but probable. But it is not of moment whether such a result is probable or not, for the test to be applied is, what *may* be done under the agreement?
>
> Reference to the complaint makes it clear that the association has undertaken to provide for the practical exclusion from the business of selling books *not* protected by copyright all who refuse to be bound by the rules of the association."

That decision puts the New York court squarely in opposition to agreements, combinations and "systems of contracts" between a manufacturer of unpatented or uncopyrighted articles and his vendees which tend to an unreasonable restraint of trade or to create a monopoly, and makes plain the ground upon which such contracts had been maintained in the Park & Sons Co. case. That the "proprietary medicines," called

more than once "patent medicines," were not in fact patented, is of no significance, if true, for the court assumed they were and it does not appear from anything in any of the opinions that the fact assumed was not true. That opinion by its own language as well as by the pointed reference to the principle upon which it rested in the later opinion of the same court, has no application when, as here, the subject of the contracts in question is unpatented and uncopyrighted articles. The cases of *Elliman & Sons* v. *Carrington & Son*, L. R., 1901, 2 Ch. Div., 275, and *Garst* v. *Harris*, 177 Mass., 72, are also cited as supporting the legality of such a series of agreements as that under which complainant conducts his business. Both cases involved contracts of sale, presumably made under secret formulas, though no stress is laid upon the fact in the Elliman case. *Each was a suit directly between the vendor and his vendee. Each involved only a single transaction* by which the article was sold upon an agreement that the purchaser would not resell at less than a named price. Neither concerned any other rights than those of the contracting parties, and neither decides more than that an agreement of sale of a chattel by which the purchaser agrees that he will not sell below a certain price is valid and not such a restraint of trade as to be obnoxious to the law. Neither case holds that a buyer from such a vendee, even with notice, would not get title or come under the obligation of the contract between the original parties. The most that can be made of its decisions, is, that, having regard to the subject-matter and the limited character of each agreement, neither contract had that sweep and extent which would constitute the restraint an unreasonable one and,

therefore, not within the mischief of the rule against restraints. The Elliman case was decided by a single judge.

Walsh v. *Dwight*, 58 N. Y. Sup., 91, another case relied upon to support the decree, was an action by a maker and dealer in saleratus and soda, alleged to be an article in common use, against another maker who sold another brand which he called "Dwight's Cow Brand Saleratus and Soda," for damages to him through a course of business by which this brand of the same article lost much demand. The defendant did this, first, by extensive advertising, second, by giving to all dealers a rebate who would agree to sell its article at a minimum price named and to charge a like price for every other brand. The price thus fixed was, as averred, an extravagant price and operated to enlarge the demand for the defendant's advertised brand and diminish that for the plaintiff's. The court found no illegal restraint of trade, as there was "nothing to prevent others from engaging in the business or the manufacturers of other articles from selling their products to anyone willing to buy." The substance of the decision is well stated in the syllabus as follows:

> "An agreement by a manufacturer with his customers to give them a rebate if they should refuse to sell his article, or other similar articles, at less than a certain price, is not in restraint of trade."

The fact that "Peruna" is a trade name, that it is put on the market in a distinctive trade dress, has no bearing upon the question. The defendants are not charged with infringing the trade mark or trade dress. The medicine they bought was the medicine put up by

the complainant and the defendants have neither sold nor offered to sell a preparation of their own for and as the preparation of the complainant. A trade mark, or a trade name, or a trade dress, have no other effect than to prevent one from "palming" off his goods for those of another. *Garst* v. *Hall & Lyon Co.*, 179 Mass., 588; *Singer Mfg. Co.* v. *June Mfg. Co.*, 163 U. S., 169. The averments of the bill as to the complainant's trade name and trade dress are irrelevant, for no exemption from the principles of the common law is secured by either. *Garst* v. *Hall & Lyon Co.*, 179 Mass., 588; *Singer Mfg. Co.* v. *June Mfg. Co.*, 163 U. S., 169.

The transactions described in the bill plainly constitute sales of complainant's medicines and the general title passes to every such purchaser and sub-purchaser. *Garst* v. *Hall & Lyon Co.*, 179 Mass., 588, 590. To call such a purchaser an "agent" is to juggle with words. Sale is a word of precise legal import and every wholesaler who orders goods under one of complainant's uniform contracts becomes a buyer, obtains a title and may convey the title to another.

The case must, therefore, turn upon the legality of the restrictions imposed by the complainant in sales which pass the general property in chattels, as well as the possessions, and provide for no reverter.

Neither is the suit based upon any breach of contract by the defendants. Confessedly, they have made no contract with complainants and have definitely refused to conform to complainant's methods of doing business. That they have bought "Peruna" on the market from sellers who had it for sale, is true. That

the bill avers that they bought without being licensed to buy, is true. That they bought from vendors who knew this fact and who thereby breached their agreement not to sell to dealers who had not been certified to them as licensed buyers who had entered into an agreement with the complainant restricting resales is also averred. That Park & Sons Company knew complainant's plan of business and that in selling to them every such vendor thereby breached his agreement, is also charged and for the purpose of the demurrer, admitted. What is the result? Did the defendants by so purchasing, with knowledge of the restrictions imposed upon sales, thereby enter into contractual relations with complainant? Manifestly not. Did they obtain the absolute title, notwithstanding their knowledge that the sale was in breach of restrictions imposed upon the seller? Undoubtedly. The restrictions imposed by complainant upon sales and resales, if valid at all, are only so because they constitute personal contracts upon which action will lie only against the contracting party. *Garst* v. *Hall & Lyon Co.*, 179 Mass., 588. A prime objection to the enforcibility of such a system of restraint upon sales and prices is that they offend against the ordinary and usual freedom of traffic in chattels or articles which pass by mere delivery.

The right of alienation is one of the essential incidents of a right of general property in movables, and restraints upon alienation have been generally regarded as obnoxious to public policy, which is best subserved by great freedom of traffic in such things as pass from hand to hand. General restraint in the alienation of articles, things, chattels, except when a

very special kind of property is involved, such as a slave or an heirloom, have been generally held void. "If a man," says Lord Coke, in Coke on Littleton, section 360, "be possessed of a horse or any other chattel real or personal, and give his whole interest or property therein, upon condition that the donee or vendee shall not alien the same, the same is void, because his whole interest and property is out of him so as he hath no possibility of reverter; and it is against trade and traffic and bargaining and contracting between man and man." It is also a general rule of the common law that a contract restricting the use or controlling sub-sales cannot be annexed to a chattel so as to follow the article and obligate the subpurchaser by operation of notice. A covenant which may be valid and run with land will not run with or attach itself to a mere chattel. Spencer's case, 3rd Resolution, 5 Coke 16; Wald's Pollock on Contracts, 3rd Edition 278; *Splidt* v. *Bowles,* 10 East 279, 282; *Smith* v. *Williams,* 117 Ga., 782; *Prater* v. *Campbell,* 110 Ky., 23; *Appolinaris Co.* v. *Scherer,* 27 F. R., 18, 21; *Carst* v. *Hall & Lyon Co.,* 179 Mass., 588, 691; *Taddy Co.* v. *Sterions' Co.,* 73 Law Journal, 1904, Ch. Div., p. 191; *De Mattox* v. *Gibson,* 4 DeJ. & Jones, 276, 282.

Against this conclusion and in supposed opposition to the above authorities, counsel for the appellee have cited the line of cases heretofore referred to relating to contracts restraining the use or sale of articles made under patents or copyrights. We have already indicated herein that these cases do not apply to contracts which do not relate to articles not made under patents or copyrights. They also cite *New York Bank Note Co.* v. *Hamilton Bank Note Co.,* 180

N. Y., 280, 294-295, *De Mattox* v. *Gibson*, 4 DeJ. & Jones 276, and *Whitwell* v. *Tobacco Co.*, 125 F. R., 454. The New York Bank Note Company case concerned the legality of a contract for the sale of "Kidder Printing Presses" with attachments enabling them to do a certain class of work. There were patents upon certain parts of the press, but none upon the attachments. It was contended that a covenant which restricted the sales of the press with the attachments was void as in restraint of trade. The fourth syllabus is in these words:

> "The fact that the contract restricted the sale of presses except to the printing company, and that a separate consideration was paid for the covenant of restriction, does not render the contract so unreasonable in its restraint of trade that it is void for that reason, where the adoption of the press to the special use was the work of both parties and the covenant not to sell other presses for similar work accompanied the manufacture and sale of a press and constituted an integral part of the thing sold."

The ground is better shown by the following extract from the opinion itself:

> "So far as the machine was the subject of patent its use was lawfully a monopoly, and, therefore, no contract relating to it could be condemned as creating a monopoly. But whatever may have been the case as to the patentable character of the machine, we think the fact that its adaption to the special use was the joint work of both parties, and that the covenant not to sell other presses for similar work accompanied the manufacture and sale of a machine, rendered that covenant reasonable as constituting an integral part of the value of the thing sold."

See 127 N. Y., 480. It is manifest that the case is

not in point. *De Mattox* v. *Gibson* is still less an authority.

Under a bill for specific performance of a charter party, the question arose as to whether a mortgagee of the chartered vessel should be allowed to foreclose and thereby intercept a voyage which the vessel was under contract to make when the mortgage was given, of which contract the mortgagee had notice. It was in respect of such facts that Justice Bruce used the language which is supposed to support the notion that a covenant may attach to chattels which pass by delivery from hand to hand and bring anyone who buys with notice under the restrictions against a resale at less than a dictated price. But even in that case it was said, that the mortgagee who took his mortgage with notice incurred no liability in respect to the charter party and was only obliged to desist from doing anything which would prevent performance. *Whitwell* v. *The Tobacco Co.* involved nothing more than whether a tobacco manufacturer might sell his goods at one price to those who would agree to buy only from him and at a higher price to those who would not.

The conclusion we reach upon all the foregoing considerations is that the complainant cannot obtain the active interposition of a court of equity against one who is under no contract relation to him, unless the covenants which he has imposed upon his vendee and sub-vendees are only such reasonable and partial restraints, for his own protection, as may be legally exacted by one who sells a business or property. This court in *United States* v. *Addyston Pipe Co. et al.*, 85 F. R., 271, 281, *et seq.*, speaking by Judge Taft, laid

down as an indispensable condition that "no conventional restraint of trade can be enforced unless the covenant embodying it is merely ancillary to the main purpose of a lawful contract, and necessary to protect the convenantee in the enjoyment of the legitimate fruits of the contract, or to protect him from the dangers of an unjust use of those fruits by the other party." Covenants in partial restraint, and ancillary to a principal contract, which had generally been upheld, the learned Judge divided into five principal classes. The fourth of these classes he defined as covenants "by the buyer of property not to use the same in competition with the business retained by the seller." As typical cases under this class he cited *American Strawboard Co.* v. *Haldeman Paper Co.*, 83 F., 619; *Hitchcock* v. *Anthony*, 83 F., 779, both being decisions by this court (*Navigation Co.* v. *Winsor*, 20 Wallace, 64; *Dunlop* v. *Gregory*, 10 N. Y., 241, and *Hodge* v. *Sloan*, 107 N. Y., 244). The court below located the contracts here involved as coming under the fourth class, being covenants ancillary to the sale of the medicines put up by the complainant, which he concluded were not unreasonable for the protection of the retained business of the covenantee. Assuming that there contracts operate only as a partial and not a general restraint, a question which we do not concede, and that they are properly to be considered as covenants ancillary to a principal contract, are the restraints thereby imposed necessary to protect the complainant in his retained business, or to protect him from an unjust use of the articles by the purchaser? In the first place we are to consider that we are not here dealing with a single con-

tract. The complainant has made a multitude of them in identical terms and the opposite parties comprehend, according to his bill, a large majority of the wholesale and retail druggists in the United States. The reasons which might uphold covenants restricting the liberty of a single buyer might prove quite inadequate when there are a multitude of identical agreements. The single covenant might in no way affect the public interest, when a large number might. So, also, the question as to whether the restraint was necessary to the retained business and, therefore ancillary to the principal purpose of the agreement, or whether the restraining covenants were not the principal rather than the ancillary matter, would largely depend upon the general sweep and result of a multiplication of identical contracts. The general purpose of each separate contract is the regulation of the prices and sales of the line of preparations made by complainant. A common purpose unites each covenantee to every other and the "system" is to be construed as "one piece," in which the complainant and every assenting dealer, whether wholesaler or retailer, is a party, and the agreement of each such covenantee to sell only at the prices dictated by the manufacturer constitutes one general scheme. The question here is, therefore, one of a totally different character from that which would arise if the question was the more simple one presented by a breach by a single covenantee. In *Continental Wall Paper Co.* v. *Voight & Sons Co.*, where was involved a combination in restraint of trade and where each wholesaler and retailer in the business had executed separate but identical contracts with the corporation representing the combined manufacturers, we

held that each such separate covenantee was a party to the general scheme for enhancing prices. This was rested upon the holding that the several agrements constituted one whole. See also observations of Judge Taft in *United States* v. *Addyston Pipe Co.*, 85 F. R., 235, and of Justice Peckham in *Montague* v. *Lowry*, 193, U. S., 38, 45-6.

The plain effect of the "system of contracts," the purposed relation of each to every other being confessed by the very description of the method of carrying on business stated in the bill, is, first, to destroy all competition between jobbers or wholesale dealers in selling complainant's preparations. Complainant restrains himself by agreeing to sell at only one price and to only such persons as will sign one of his system of contracts. The contracting wholesalers or jobbers covenant that they will sell to one one who does not come with complainant's license to buy, and that they will not sell below a minimum price dictated by complainant. Next, all competition between retailers is destroyed, for each such retailer can obtain his supply only by signing one of the uniform contracts prepared for retailers, whereby he covenants not to sell to anyone who proposes to sell again unless the buyer is authorized in writing by the complainant and not to sell at less than a standard price named in the agreement. Thus all room for competition between retailers, who supply the public, is made impossible. If these contracts leave any room at any point of the line for the usual play of competition between the dealers in the product marketed by complainant, it is not discoverable. Thus a combination between the manufacturer, the wholesalers and the retailers to

maintain prices and stifle competition has been brought about. It is true that the complainant is not in a combination with other makers of "Peruna." There are no others. If there were, there would not be a complete or general restraint, for it might then happen that these others, not being bound by any covenants, could supply the public. If the supply to come from them was adequate for the public demand, the public might be in no wise affected. Now, if the complainant had absorbed all the sources from which the demand for lumber, or furniture, or stoves could be supplied and then should say: "I will sell only to those who will resell only to those I shall license to buy and only at the price I dictate," could any voice be raised to say that the covenants, which every dealer should sign in order to prevent exclusion from trade in such articles, would be upheld by the courts and a remedy by injunction granted to restrain breaches? But, it is said, that a distinction exists between contracts which relate to articles which anyone can make and sell and those which are made under a secret process, and that covenants in respect to the former might affect the public interest while the public would not be affected by like covenants relating to the latter class of subjects. But unless we are willing to say that that fact places such products wholly outside of the mischief incident to restraints of trade and upon a plane of equality in that respect with that occupied by things made under the statutory monopoly of a patent, the fact can be of no weight except as it may be a factor in determining whether the covenants exacted of jobbers and retailers, alike regulating subsequent sales and selecting subsequent buyers, are no more than neces-

sary to afford a fair protection to the business of the complainant and not so large as to interfere with the interests of the public. There can be no hard and fast rule by which the result can be reached in such cases. At last the question must come to this: "What is a reasonable restraint with reference to a particular case?" This was the test applied in *Horner* v. *Graves,* 7 Bing., 735; and in *Nordenfeldt* v. *Maxim Nordenfeldt Co.,* 1894, App. Cases, 535, 567, and also approved by this court in the Addyston Pipe Co. case, 85 F. R., 271, 282. A general system of contracts, such as that which the complainant seeks to enforce and which the bill avers is a method generally adopted in his line of business, involves very different questions from those which arise when a single contract only is involved and the action is between the contracting parties for a breach, as was the case in *Garst* v. *Harris,* 177 Mass., 72, and *Elliman* v. *Carrington,* L. R. 1901, 2 Ch. Div., 275.

Now, in what way is only a fair protection afforded the interests of complainant by stifling all competition between the jobbers of the United States who deal in complainant's preparations? In what way are the covenants which forbid them to resell to anyone who will buy, "necessary," to use Judge Taft's phrase, "to protect the covenantee in the enjoyment of the legitimate fruits of the contract, or to protect him from the dangers of an unjust use of those fruits by the other party? In what way are covenants which compel retailers to maintain prices, to quote Chief Justice Tindal, "such only as to afford a fair protection to the interests of the party in favor of whom it is given, and not so large as to interfere with the interests of

the public?" *Horner* v. *Graves*, 7 Bing., 735. The learned trial Judge found it difficult to answer these questions. He says, in his opinion, 145 F. R., 358:

> "That complainant's vendees and sub-vendees should be so restrained is advantageous to complainant's business. It would be an injury to it for them not to be so restrained. Exactly how it is so advantaged and how it would be injured by a removal of the restraint has not been developed in the argument; and I do not feel sufficiently advised of such matters to say as to this. It would seem that the existence of such a system of contracts in relation to complainant's medicine would tend to prevent demoralization in the trade therein through competition amongst its vendees and subvendees and enable him to maintain his prices for his medicine."

The averments of the bill are very general. Thus it is averred that "Some time since, the class of stores known as department stores and cut rate stores have inaugurated a system of obtaining from cut rate wholesale and jobbing druggists and elsewhere, and offering for sale your orator's medicines, remedies and preparations at retail prices lower than the prices fixed by your orator and stamped upon the cartons and packages. Said system is known as the 'cut rate' or 'cut price' system and resulted in much confusion, trouble and damage to your orator's business, and has injuriously affected the reputation and depleted the sale of your orator's remedies, medicines and praparations. Thereupon, and in order to protect its trade, custom and business, and the manufacture and sale of his remedies, medicines and preparations, your orator has established and put in force the following methods and system of governing, regulating and controlling

the sale and marketing of your orator's said medicines, remedies and preparations."

Then after setting out the system of contracts, which is now sought to be enforced, it is said:

> "The enire purpose and object of the said system of contracts, serial numbers, lists and cards being to prevent the cutting of prices and the demoralization of trade, both wholesale and retail, in your orator's medicines and remedies, and the injury and damage resulting to your orator's aforesaid trade and business in the manufacture and sale of said remedies and medicines, as aforesaid, which said system and method your orator charges both in its form and purposes, and the prices therein fixed are reasonable, regular and proper, and which, if observed, will accomplish the aforesaid purposes and greatly benefit your orator in his aforesaid business by increasing the sales of and demands for his remedies, medicines and preparations."

"These allegations," said the court below, "must be taken as true" and upon these he held that the complainants were advantaged by the covenants and injured if not so restrained. In this conclusion we cannot concur. *Prima facie* the contracts are plainly in restraint of trade. It was for the complainant to show that the covenants were not larger than necessary for his protection against an unjust use to the injury of complainant's retained business. Unless he could do this, he could not ask equitable relief under such covenants. This the bill does not do, unless the court is to be content with general averments that the competition methods caled derisively the "cut rate" or "cut price" system had "demoralized," "confused," "troubled" and "damaged" the complainant's business. So, also, it is averred that the "system" had

and will accomplish the suppression of the competition plan "and greatly benefit your orator in his business by increasing the sales of and demand for his remedies." Doubtless the "system" rigidly enforced will put an end to the "demoralization," the "trouble" and "confusion" incident to competition. But such an averment as this can be of no legal consequence for it is no more than to say that a non-competitive system of conducting trade and traffic in the line of articles made by complainant is of more advantage than the ordinary competitive system. That the suppression of even unreasonable competition will sanctify an agreement or combination to restrain trade will not be claimed. The whole economic system which has made our civilization is founded upon the theory that competition is desirable and the common law rules against restraints of trade rest upon that foundation. A partial restraint of competition may be upheld when one sells a business or other property; provided it is no greater than necessary to enable the vendor to realize the value of his good will or to secure to the buyer the enjoyment of his purchase, or to prevent the use of the property to the prejudice of the seller. But here the *only competition which the contracts in question tend to suppress is competition between those who buy his goods to sell again.* How the suppression of competition between his vendees and sub-vendees is to secure to him the enjoyment of the legitimate fruits of his contracts of sale, to which the restrictive covenants are supposed to be ancillary, or to protect him against an unjust competition, is not clear and the bill states no facts from which we can determine whether these covenants are necessary and reasonable. The general averment that under the "cut rate" plan of

doing business, demoralization and damage resulted, while under the "contract system" enlarged sales and increased emoluments have and will follow does not answer the question as to why such covenants are necessary to protect complainant against consequences which he may fairly require protection. Looking to the averments of the bill as a whole and to the scheme of business as disclosed by the contracts themselves, we cannot escape the conclusion that the covenants restricting sales and resales have as their prime object the suppression of competition between those who buy to sell again. Any benefit to the retained business to result from them is manifestly but an incident of the main purpose, which *is to benefit his vendees and subvendees by breaking down their competition with each other.* Restraints which might be upheld if ancillary to some principal contract cannot be enforced if, when unmasked, they appear to be the main purpose of the contract and not subordinate. The covenants in the contracts signed by the retailers are not even collateral to any sales by the complainant, but to sales made by the wholesalers. Although they run to the complainant, their prime purpose is neither the protection of the retained business of the complainant nor of the wholesaler, but only to prevent competition between retailers. Covenants protecting the seller of property against the competition of the buyer by its use against the business retained by the seller, which are upheld if not wider than necessary for that purpose, have been covenants where the main purpose has been to protect the seller himself against competition *directed against his retained business.* No instance has been called to our attention where the main purpose and principle, if not only result, is to protect buyers against

the competition of each other. If such a principle shall find lodgment in the law it must be upon economic reasons which are in conflict with those which now prevail. The single direct effect of the "system of contracts" is to limit and restrain the right of each wholesaler and each retailer to transact business in the ordinary way. Each obtains a price enhance by the "system" over the "cut rate" or "cut price" method which had before prevailed and which it was the object of the new plan to abolish. It may be that sales went on as before; but at a higher price to the consumer than would otherwise have been paid. In *Addyston Pipe Co.* v. *United States,* 175 U. S., 211, 244, it was said:

> "We have no doubt that where the direct and immediate effect of a contract or combination among particular dealers in a commodity is to destroy competition between them and others, so that the parties to the contract or combination may obtain increased prices for themselves, such contract or combination amounts to a restraint of trade in the commodity, even though contracts to buy such commodity at the enhanced price are continually being made. Total suppression of the trade in the commodity is not necessary in order to render the combination one in restraint of trade. It is the effect of the combination in limiting and restraining the right of each of the members to transact business in the ordinary way, as well as its effect upon the volume or extent of the dealing in the commodity, that is regarded."

It is no answer to such restrictive covenants that after all they only prevent injurious competition between such dealers and only result in maintenance of reasonable prices. These are not the tests by which the validity of such agreements are determined. In *People* v. *Sheldon,* 139 N. Y., 251, 264, it was said:

> "If agreements and combinations to prevent competition are or may be hurtful to trade, the only sure remedy is to prohibit all agreements of that character. If the validity of such an agreement was made to depend upon an actual proof of public prejudice or injury, it would be very difficult in any case to establish the invalidity although the moral evidence might be very convincing."

This principle is very strongly approved by this court in the Addyston Pipe case, so frequently referred to, and many other cases cited in its support. It has been suggested that we should have regard to new commercial conditions and a tendency toward a relaxation of old common law principles which tend to prevent development on modern lines. This is an argument better addressed to legislative bodies than to the courts. Neither is it wise for the courts to countenance the introduction of artificial distinctions dependent upon the variant economic views of individnal judges. Distinctions which are suspicious or analogies which are but apparent will but afford opportunities to whittle away broad economic principles lying at the bottom of our public policy, principles which have long received the sanction of statesmen and the approving recognition of a long line of jurists. A like argument is expected whenever some new method of circumventing freedom of commerce comes under the tests of the law. It was made and answered by Judge Taft in the Addyston Pipe case with a strength to which we can add nothing.

Our conclusion is that complainant's system of contracts is not enforceable. The injunction must be discharged. The case will be remanded with directions to proceed as may be consistent with this opinion.

EXHIBIT N.

No. 1797.

UNITED STATES CIRCUIT COURT OF APPEALS,

Sixth Circuit.

Dr. Miles Medical Company, *v.* John D. Park & Sons Company.	Appeal from the Circuit Court of United States for the Eastern District of Kentucky.

Submitted May 5, 1908.

Decided June 2, 1908.

Before LURTON, SEVEREENS and RICHARDS, *Circuit Judges.*

This is a bill by manufacturers of proprietary medicines who put them upon the market under a system of contracts intended to maintain the prices fixed by them. There are two forms of these contracts, one with wholesalers and another with retailers. Like contracts, it is claimed, have been made and signed by nearly all jobbers and retailers in the United States who deal in such goods. These contracts are set at end of the opinion.

The defendant company refuses to enter into any such agreement and, according to the averment of the bill, illegally induces persons who have, to violate their contracts by selling to him, though unauthorized to

buy, and at prices below those which such persons are required to exact. It is also averred, that for the purpose of protecting the seller from the consequences of a breach of contract the defendant company defaces the carton enclosing the medicine and destroys the evidence thereon or thereto attached by which, through a serial number, complainant might trace the seller who breached the contract. In addition it is charged, that defendant sells to retailers who carry on a "cut-rate" business, who in turn retail to consumers at rates less than those which complainant requires all retailers to exact from persons buying for use. The bill in all its important averments as to the manner in which complainant carries on its business and the advantages of such method and the evils of the "cut-rate" business in such goods as well as its averments as to the knowledge of the system possessed by the defendant, are substantially identical with the averments of the bill under consideration by this court in *Jno. D. Park & Sons Co.* v. *Hartman,* 153 F. R., 24. In the Hartman system of contracts, the contract between Hartman and the jobber was confessedly one of sale, under the Dr. Miles system it is claimed, it is one of consignment or agency and not sale. With this distinction, if it exist, the opinion in the Hartman case may be referred to for a more detailed statement of the evils of the competetive or "cut-rate" system and the advantages of the one price or non-competitive plan which the complainant seeks to bring about by the system of contracts here involved.

The acts and conduct against which complainant seeks relief are identically the conduct complained of in the Hartman case and the opinion in that case may

be referred to for a more detailed statement of the case here made for relief.

A demurrer to the bill was sustained upon the authority of the opinion of this court in the Hartman case.

LURTON *Circuit Judge*, after making the foregoing statement of the case delivered the opinion of the court.

We see no substantial difference between the systems of contracts under which the Dr. Miles Medical Company is now conducting its business and that under which Dr. Hartman carries on his business as a manufacturer of Peruna, considered by this court at length in the case of *Jno. D. Park & Sons* v. *Hartman*, 153 F. R., 24. That case is pending, undecided, in the Supreme Court. The complainant's very learned counsel was the counsel for Hartman in that case and both systems of contracts are most probably the fruit of his acknowledged skill in respect to this class of business arrangements. No difference whatever is suggested between the system of contracts considered in that case and those here presented except, it is claimed, that the agreement with jobbers and wholesale dealers here involved is one of bailment or agency and not one of sale as in the Hartman case. If this were admitted, it does not, in our judgment, operate to legalize the "system" of which that agreement is but one part. The effect of that contract with jobbers, whether it be regarded as one of sale or of agency, is to restrain jobbers from selling to any save retailers licensed by complainant and to restrain retailers from selling for resale to any save those licensed to buy or to persons who buy for consumption only, and to none,

by either jobber or retailer, except at a price imposed by the manufacturer. The confessed object of this plan or system is to obtain a price to the jobber and to the retailer uneffected by any competition between them. The scheme is one to enhance or maintain prices by eliminating all possibility of competing rates between either jobbers or retailers and is quite as effectual in its results as if the contract with the jobber was plainly one of sale.

But we are not disposed to concede that the contracts with jobbers are contracts of bailment. There are too many features which seem inconsistent with a mere agency or commission agreement. All the responsibility of an owner seems cast upon the so-called consignee. He is not given the right to return goods unsold, that can be done only upon the cancellation of the contract and demand for return. The retention of title for the security of the price would after all make the contract one of conditional sale and the jobber would still be the general owner and responsible as such. Curiously enough the actual payment of the price at which the consignment is billed is not to affect the title, it is still under the contract to remain with the so-called consignor. Yet the heavy inducement of five per cent., upon a very close class of goods is held out to induce a payment in advance of sales. It is difficult to believe, whatever the technical relation of the parties under such an agreement and whatever the belief each may have had as to his relation to the other, that such jobbers were not in fact and law the general owners of goods so "consigned" and engaged in selling for themselves and not as the mere agents, *del credere* or otherwise, of the complainant. The

scheme sems to be an effort to disguise the wholesale dealers in the mask of agency upon the theory that in that character one link in the system for the suppression of the "cut-rate" business might be regarded as valid. Hardly any two contracts raising the question of sale or agency are so near alike as to make an opinion construing one an authority in another. It matters little what the parties call such agreements. Whether the result is a sale or an agency must depend upon the meaning and intent of the instrument as a whole. Looking at this agreement thus, we think the jobber must be regarded as the general owner and engaged in selling for himself and not as a mere agent of another. True, he must sell, if this system of doing business is valid, and enforceable, as he obligates himself to do, but nevertheless he is selling for himself and upon his own account and risk. *Coweta Fertilizer Co.* v. *Brown,* decided at this term and cases therein cited; Exparte White, L. R., 1870, 6 Ch. App. Cases; *Mack* v. *Drummond Tobacco Co.,* 48 Neb., 397; *Peoria Co.* v. *Lyons,* 153 Ill., 427; *Arbuckle* v. *Kirkpatrick,* 98 Tenn., 221.

This case must, after all, turn upon whether there is such identity of character between the statutory monopoly of articles made under a valid patent or copyright and articles made according to some private formula as to exempt them from the principles which apply to contracts which tend to create a monopoly or restrain trade when the subject is an article not made under a patent or copyright or secret formula. A distinction exists between the extent of the protection granted by the patent and copyright statutes, and the copyright statute has been held "not to create the

right to impose, by notice, a limitation at which a book shall be sold at retail by future purchasers, with whom there is no privity of contract.'' *Bobbs Merrill Co.* v. *Straus,* decided by the Supreme Court, June 1, 1908. The distinction has been drawn since the decision of the cases we refer to and since the decision of the Hartman case, above referred to. There are decisions by most respectable courts which hold that articles, such as proprietary medicines, are outside of all rules and statutes which forbid contracts in restraint of trade, because they are made under a secret formula. Some , if not most, of these decisions have been made in cases in which the Dr. Miles Medical Company has been a party. They are cited and commented upon by this court in the case of *Jno. D. Park & Sons* v. *Hartman,* 153 F. R., 24, 34. They go upon the conceded fact that a trade secret or medical formula is a monopoly until discovered by fair means and will be protected against abuse by one who learns it under a contract limiting its use or in the confidence of an employment. They do not observe any distinction between the necessary monopoly of the secret itself and the unnecessary monopoly of the articles made according to the secret process and offered for sale and resale to the consuming public. Neither do those decisions recognize any distinction between the statutory monopoly accorded to articles protected by a patent or copyright and those made under such private formulas. The argument in suport of this result is epitomized in all the cases referred to but may be seen in full in the opinion of Colt, Circuit Judge, in the case styled *Dr. Miles Medical Co.* v. *Jaynes Drug Co.,* 149 F. R., 838. The same argument was presented by the counsel now representing

the Dr. Miles Medical Company in the case decided by this court of *Jno. D. Park & Sons Co.* v. *Hartman*, 153 F. R., 24, and again presented with elaboration in the present case. In the case referred to, we reached with unanimity the conclusion that no legal, economic or moral reason existed for regarding contracts in respect to the vast and ever increasing commerce in proprietary medicines as either outside of the mischief intended to be remedied by the federal statute against monopolies or the rules of the common law, or within the statutory protection afforded by the patent and copyright statutes. Any other conclusion would be to sanction a monopoly in that class of goods vastly more far reaching than the monopoly extended upon high grounds of public policy to the inventor. The statutory monopoly has a limitation of a few years. To obtain it the inventor must put on record his invention. At the end of the term the public will be free to employ the discovery without the burden theretofore imposed as a compensation to the inventor. Not so with the monopoly asked for by those who control the enormous proprietary trade of this country. Their monopoly will go on forever and, if there be merit in their formula, they may not only preserve it through all time but continue to restrain prices and prevent competition in the sale of the product. It is said, that the proprietor of such a secret remedy need never communicate his formula. Concede this. To say that he need never compound his medicine and that if he does, he need not sell it unless he chooses, is undoubtedly true. But as much may be said about any article which the producer may choose to make or not to make, sell or not to sell, as he wills. So much pertains inherently

to the natural freedom of man in respect to his own actions . But if he elects to make and sell a product according to his formula, a public interest is affected if he be permitted to restrain freedom of trade in the article when it has once passed under the dominion of a buyer. A free right of alienation is an incident to the general right of property in articles which pass from hand to hand in the commerce of the world. Coke on Littleton, Sec. 360. The mere fact that one article or class of articles is made under an unknown and private formula and another class is not, is an undeniable fact which may serve for some purposes to differentiate them. But that single fact does not afford an economic reason, and still less a legal reason, for saying that it operates to exempt such articles from rules against unlawful restraints of trade.

We need not repeat the argument by which we reached the conclusion that the system of contracts which Hartman sought to enforce through the injunctive power of a court of equity was obnoxious not only to the statute of Congress against restraints and monopolies in respects of interstate trade but inimical also to the reasonable restraints which at common law may be imposed as ancillary to a principal contract. All that we said in respect to the Hartman system is applicable here. The case falls directly within the reasoning and decision of that case in respect to every aspect of the question and the decree sustaining the demurrer interposed by the appellees must be affirmed.

Form of contracts.

"Consignment Contract.—Wholesale. The Dr. Miles Medical Company.

This Agreement made by and between The Dr. Miles Medical Company, a corporation, of Elkhart, Indiana, hereafter referred to as the Proprietor, and ..... hereinafter referred to as the Consignee, Witnesseth:

That the said Proprietor hereby appoints said Consignee one of its Wholesale Distributing Agents, and agrees to consign to such Consignee for sale for the account of said Proprietor such goods of its manufacture as the Proprietor may deem necessary, the title thereto and property therein to be and remain in the Proprietor absolutely until sold under and in accordance with the provisions hereof, and all unsold goods to be immediately returned to said Proprietor on demand and the cancellation of this agreement. Said goods to be invoiced to Consignee at the following prices:

Medicines, of which the retail price is $1.00, $8.00 per dozen;

Medicines, (if any) of which the retail price is 50 cents, $4.00 per dozen;

Medicines, of which the retail price is 25 cents, $2.00 per dozen;

Freight on all orders, the invoice price of which amounts to $100.00 or more, to be prepaid by the Proprietor; otherwise, freight to be paid by Consignee.

Said Consignee agrees to confine the sale of all goods and products of the said Proprietor strictly to and to sell only to the designated Retail Agents of said Proprietor as specified in lists of such Retail Agents furnished by said Proprietor and alterable at the will of said Proprietor, and to faithfully and promptly account and pay to the Proprietor the proceeds of all sales, after deducting as full compensation for all services, charges and disbursements a commission of ten per cent.

of the invoice value, and a further commission of five per cent. on the net amount of each consignment, after deducting the said ten per cent. commission, on all advances on account remitted within ten days from date of any consignment, it being agreed between the parties hereto that such advances shall in no manner affect the title to such goods, which title shall remain in the Proprietor as if no such advances had been made; provided that such advances shall be repaid to said Consignee should the said Proprietor terminate this agreement and demand the return of any unsold goods on which advances have been made. Said Consignee guarantees the payment for all goods sold under this agreement and agrees to render a full account and remit the net proceeds on the first day of each month of and for the sales of the month preceding. Failure to make such accounting and remittance within ten days from the first of each month shall render the whole account payable and subject to draft, but the proceeds of such draft shall not affect the title of any unsold goods, which shall remain in the Proprietor until actually sold, as herein provided.

It is further agreed that the Consignee shall furnish the Proprietor from time to time upon demand full statements of the stock of goods of the Proprietor on hand on any date specified and that a failure to furnish such statements within ten days from date of such demand shall be a sufficient cause for the cancellation of this agreement, and a demand for the return of the consigned goods.

It is further agreed that the Proprietor will cause each retail package of its goods to be identified by a number and said Consignee hereby agrees to furnish the said Proprietor full reports upon proper cards or blanks furnished by said Proprietor of the disposition of each dozen or fraction of such goods by means of the identify-

ing numbers, specifying the names and addresses off the Retail Agents to whom such goods have been delivered and the dates of such delivery, and to send such reports to said Proprietor at least semi-monthly, and at any other time on the request of said Proprietor.

It is understood and agreed between the parties hereto that the commissions herein specified shall not be considered as earned by said Consignee upon any goods of said Proprietor which shall have been delivered to dealers not authorized Agents of said Proprietor, as per list of such Agents, or upon any goods whose disposition by said Consignee shall not have been properly reported as herein provided, or sold at prices less than the prices authorized, and that said Consignee shall not credit any such commissions when making remittances on consignment account provided notice has been given by said Proprietor that such commissions are unearned; and that if such unearned commissions have been deducted by said Consignee in making advance payments or monthly remittances on account they shall be charged back to said Consignee and credited and paid to said Proprietor. It is understood that violation or non-observance of any provision hereof by the Consignee shall make this agreement terminable and all unsold goods returnable at the option of the Proprietor.

It is agreed that the goods of said Proprietor shall be sold by said Consignee only to the said Retail or Wholesale Agents of said Proprietor, as per list furnished, at not less than the following prices, to-wit:

Medicines, of which the retail price is $1.00, $8.00 per dozen;

Medicines, (if any) of which the retail price is 50 cents, $4.00 per dozen;

Medicines, of which the retail price is 25 cents, $2.00 per dozen;

Provided, that said Consignee may allow a cash discount not exceeding one per cent., if paid within ten days from date of invoice, and that when sales at one time and one invoice, amount to $15.00 or more, the said Consignee may allow three per cent. trade discount, and if said purchase amounts to $50.00 or more, five per cent. trade discount, all without cost to the Proprietor, and if such $50.00 quantity shall be shipped direct to the retail purchaser from the laboratory of said Proprietor, on the order from said Wholesale Distributing Agent, freight will be prepared by the Proprietor, but not otherwise.

This contract will take effect when the original, duly signed by the Consignee, has been received and accepted by The Dr. Miles Medical Company, at Elkhart, Indiana.

Done under our hands.....

Fill in Date on Above Line.

A. D., 1907.

THE DR. MILES MEDICAL COMPANY.

.....

Wholesale Dealer, Sign Your Name on Above Line.

Original. Return in Enclosed Envelope."

"Retail Agency Contract.

The Dr. Miles Medical Company.

This Agreement between The Dr. Miles Medical Company of Elkhart, Indiana, and.....

..... of .....

Retail Dealers Name on above line. Town.

.....

State.

hereinafter referred to as the Retail Agent, witnesseth:

Appointed Agent.

The said Dr. Miles Medical Company hereby appoints said Retail Dealer as one of the retail distributing agents of its Proprietary Medicines and agrees that said Retail Agent may

purchase the Proprietary Medicines manufactured by said Dr. Miles Medical Company (each retail package of which the said Company will cause to be identified by a number) at the following prices, to-wit:

Wholesale Prices.

Medicines of which the retail price is $1.00, $8.00 per dozen;

Medicines of which the retail price is 50 cents, $4.00 per dozen;

Medicines of which the retail price is 25 cents, $2.00 per dozen;

Quantity Discounts.

Provided that when purchases at one time and on one invoice amount to $15.00 (or more), Wholesale Distributing Agents are authorized to allow 3 per cent. trade discount; if such purchase amounts to $50.00 (or more), 5 per cent. trade discount will be allowed, and if such $50.00 quantity be shipped direct to the purchaser from the laboratory of said Dr. Miles Medical Company for the account of such Wholesale Agent, freight will be prepaid, but not otherwise.

Full Price.

In consideration whereof said Retail Agent agrees in no case to sell or furnish the said Proprietary Medicines to any person, firm or corporation whatsoever, at less than the full retail price as printed on the packages, *without reduction for quantity;* and said Retail Agent further agrees not to sell the said Proprietary Medicines at any price to Wholesale or Retail dealers not accredited agents of the Dr. Miles Medical Company.

Violation.

It is further agreed between the parties hereto that the giving of any article of value, or the making of any concession by means of trading stamps,

cash register coupons, or otherwise, for the purpose of reducing the prices above agreed upon shall be considered a violation of this agreement, and further it is agreed between the parties hereto that the Dr. Miles Medical Company will sustain damage in the sum of twenty-five dollars ($25.00) for each violation of any provision of this agreement, it being otherwise impossible to fix the measure of damage.

This contract will take effect when a duplicate thereof, duly signed by the Retail Agent, has been received and approved by The Dr. Miles Medical Company, at its office at Elkhart Indiana.

Done under our hands.....

Fill in Date on Above Line

A. D. 1907.

THE DR. MILES MEDICAL COMPANY.

.....

Retail Dealer Sign Your Name on Above Line in Ink.

To Retail Dealer:
Paste Printed Label, giving Name and address, that your name may be correctly listed.

Duplicate. Keep for reference."

IN THE

Supreme Court of the United States.

OCTOBER TERM, A. D. 1908.

Dr. MILES MEDICAL COMPANY,
Petitioner,

vs.

JOHN D. PARK & SONS COMPANY,
Respondent.

I.

STATEMENT OF THE CASE.

The dominant and controlling question presented by the record and decided by the Circuit Court of Appeals adversely to petitioner, is whether the originator and sole manufacturer of proprietary medicines who has acquired title and all the rights of the person who discovered and invented the remedies; conserved its medicines both as to process of manufacture, ingredients and proportions as trade secrets so that no one else has made or can make or compound the articles; designated and distinguished

the medicines by appropriate trade names, trade-marks and style of dress or get up; advertised and exploited and established a trade demand and good will therefor throughout the country at its own sole expense and cost; fixed and announced and advertised the respective retail prices therefor from the inception of the sales; sold to users or consumers only through retailers and in all advertisements advised prospective buyers that the medicines were to be purchased only at retail drug stores at designated prices, can by separate individual uniform contracts between such proprietor and separate individual wholesale and retail druggists relating only to its products, select and control as agents the wholesalers, or jobbers, and designate the dealers in and fix the prices at wholesale and retail of the remedies thus originated, made, conserved, identified, advertised, established and priced, or whether contracts of that description are void and unenforceable as in restraint of trade, either under the common law or the Federal Anti-Trust Act of July 2nd, A. D. 1890.

The collateral and secondary question, if such contracts are decided to be lawful, valid and enforceable, is whether dealers advised of the system or plan but not assenting thereto, can by persuasion, fraud or collusion, procure the medicines from dealers who have secured the remedies under the restrictive contracts (either consignment or sales) forbidding sales to dealers not designated by the proprietor and in violation of the known limitations and then advertise and sell the preparations so obtained

with mutilated labels and at prices less than the prices fixed by the proprietor to the injury and destruction of the proprietors good will and trade and the overthrow of the established system of sales, especially when the purpose of the procuring dealers is not direct pecuniary profit from sales, but utilization of the reputation and demand for the medicines to attract custom for other merchandise.

The petition demonstrates (1) that the system of sales has been established by petitioner at great expense and trouble. (2) That the plan is highly beneficial and advantageous to petitioner and has increased the sale of its preparations. (3) That without the protection asked the sale system must fall. (4) That other proprietary manufacturers have individually and independently adopted and established and are now seeking to enforce and maintain similar plans relative to their own proprietary medicines. (5) That ten federal judges sitting in various Circuit Courts of the United States and seven federal judges sitting as two Circuit Courts of Appeal (Second and Third Circuits) have sustained the validity and legality of plans or systems like that of petitioner and similar in principle thereto. (6) That the ultimate tribunals of New York and Massachusetts have in principle sustained the legality of similar plans. (7) That the decision of which review is sought and a prior decision by the same court upon which the present decision is based, are the only decisions adverse to the legality of the method, and that the views of the Circuit Courts of Appeal of the Second and Third Circuits and of the Circuit Court of Appeals of

the Sixth Circuit are diametrically opposed on both questions of validity of the system and equitable relief. (9) That there are pending a number of suits in various federal courts in which substantially the same questions here at issue are directly involved. (10) That the question is one of great importance not only to petitioner and other proprietors, but to the drug trade and the trade in general. (11) That it is of the utmost commercial and trade importance that the question in the form presented in the record be passed upon and determined by this court. (12) And that such review and determination will when announced decide an important question of public and trade policy and practically end a large volume of litigation. For these reasons it is respectfully urged that the petition should be allowed and the decision below reviewed.

In the case of *Samuel B. Hartman* v. *John D. Park & Sons Co.* the Circuit Court of Appeals of the Sixth Circuit decided adversely to the validity of a plan or system identical with that of petitioner in formalities and principles save that the initial or wholesale contract between the proprietary manufacturer and the jobbers was a contract of sale passing title and not one of agency, or consignment as in the present case. On petition setting forth a situation practically identical with the present a writ of certiorari was allowed and is pending. It is doubtful whether, owing to a change in conditions, that suit can or will be argued and disposed of on the merits. But even if considered and decided the distinction between the systems requires consideration and should be disposed of by allowance of the

writ in the present case. This suit presents and was decided below on the theory of both sales and consignment wholesale contracts and was adjudged to be ruled by the former decision of the court in which the writ of certiorari is still pending therein and therefore will allow a complete and final adjudication of all questions arising in both suits.

II.

BRIEF OF LAW AND AUTHORITIES.

(1) The questions are of such importance, both private and public, as to justify review and final determination by this court.

American Construction Co. v. *Jacksonville Ry. Co.*, 148 U. S., 380.
The Three Friends, 166 U. S., 1.
Forsyth v. *Hammond*, 166 U. S., 513.

(2) The confusion and uncertainty resultant from the diversity of opinion occasioned by the decisions below should be terminated as soon as practicable. The direct contract sales system is under the decisions legal and valid in the first, second, third, seventh and eighth circuits, but invalid and unlawful in the sixth circuit. This inconsistency and uncertainty should cease.

Forsyth v. *Hammond*, 166 U. S., 513.

(3) Both the Circuit Court and the Circuit Court of Appeals passed upon the merits of the case, and the petitioner electing to stand by the bill of complaint, the latter court affirmed the dismissal of the

suit with costs, thus disposing of the entire cause. Under such circumstances the writ is plainly allowable.

Smith v. *Vulcan Iron Works*, 165 U. S., 518.
Harriman v. *Northern Sec. Co.*, 197 U. S., 244, 287.
Mast, Foos & Co. v. *Stover Manuf. Co.*, 177 U. S., 485.
Castner v. *Coffman*, 178 U. S., 168.
Western Union Tel. Co. v. *Renn Co.*, 195 U. S., 540, 547.
Forsyth v. *Hammond*, 166 U. S., 506.
Kingman v. *Western Manf. Co.*, 170 U. S., 675.
American Constr. Co. v. *Jacksonville Co.*, 148 U. S., 372.
Panama R. R. Co. v. *Napier Co.*, 166 U. S., 284.
The Conqueror, 166 U. S., 113.
The Three Friends, 166 U. S., 1.
Good Shot v. *U. S.*, 179 U. S., 87.
The Conqueror, 166 U. S., 114.
Lau Ow Bew, 141 U. S., 583; 144 U. S., 58.
Am. Sug. Ref. Co. v. *New Orleans*, 181 U. S., 279.
Montana Min. Co. v. *St. Louis Co.*, 186 U. S., 31.
Hubbard v. *Tod*, 171 U. S., 474.
Saltonstall v. *Birtwell*, 164 U. S., 70.

(4) Keeping in mind that petitioner's remedies were originated and discovered by the president of petitioner and all rights therein transferred to and

acquired by petitioner, and that the processes of manufacture, ingredients, proportions and the articles themselves when marketed are trade secrets and cannot be from the very nature of the situation made by others; that petitioner alone manufactures and can manufacture; that each article is trade-marked and put out in a peculiar and distinctive trade dress; that by merit due to petitioner's discovery and skill and by his expenditures a great reputation and demand for and good will in connection therewith exist, not simply at petitioner's place of manufacturing, but at retail drug stores throughout the country; that wholesalers and retailers buy because of this good will and reputation, and that by reason of all these facts petitioner has the absolute domination, monopoly and control over its remedies and may make or not make, use or not use, sell or not sell, any or all thereof; that the title to the medicines does not pass from petitioner to the wholesaler, but remains in petitioner until bought by the retailer; that each sale is in reality a license to utilize the good will and the secret process article either generally or under such restrictions as may be imposed; and that unless until petitioner has elected to make and market or authorize others to make, use or market, with or without conditions or limitations no one else from the very nature of the situation can make, use or sell the medicines, statements of the controlling principles and lists of and brief citations from the authorities maintaining the validity of the system of contracts adopted by petitioner will be appended and briefly discussed in some instances.

(*a*) It is well settled that the method herein set out to control *the sale and prices of his own product by a manufacturer* is valid and lawful when the product is made and sold under letters patent or copyright.

Patent cases.

Bement v. *National Harrow Co.*, 186 U. S., 70.

U. S. Consolidated Seeded Raisin Co. v. *Griffin and Skelley Co.*, 126 Fed., 364.

Heaton Peninsular Button Co. v. *Eureka Specialty Co.*, 77 Fed., 238.

Edison Phonograph Co. v. *Kaufmann*, 105 Fed., 960.

Edison Phonograph Co. v. *Pike*, 116 Fed., 863.

Cortelyou v. *Lowe*, 111 Fed., 1005.

Dickerson v. *Matheson*, 57 Fed., 524.

Bonsack Machine Co. v. *Smith*, 70 Fed., 383.

Bowling v. *Taylor*, 40 Fed., 404.

Dickerson v. *Tinkling*, 84 Fed., 192.

Central Shade Roller Co. v. *Cushman*, 143 Mass., 353; 9 N. E., 629.

Gloucester Isinglass & Glue Co. v. *Russia Cement Co.*, 154 Mass., 92; 27 N. E., 1005.

Good v. *Tucker, &c., Cordage Co.*, 121 N. Y., 1; 24 N. E., 15.

Morse Twist Drill & Machine Co. v. *Morse*, 103 Mass., 73.

Cortelyou v. *Charles Eneu Johnson & Co.*, 138 Fed., 110.

Bancroft v. *Union Embossing Co.*, 72 N. H., 402; 67 Atl., 97.
Hulse v. *Bonsack Machine Co.*, 65 Fed., 864.
Victor Co. v. *The Fair*, 123 Fed., 424.
National Phonograph Co. v. *Schlegel*, 128 Fed., 733.
Whitson v. *Columbia Co.*, 18 App. D. C., 525.
Rubber Tire Wheel Co. v. *Milwaukee Rubber Works*, 142 Fed., 531.

Copyright cases.

Straus v. *Am. Pub. Assn.*, 177 N. Y., 473; 69 N. E., 1107.
Murphy v. *Christian Press Assn.*, 56 N. Y. S., 597.
Authors' & Newspapers Assn. v. *O'Gorman Co.*, 147 F. R., 614.

(*b*) Trade secrets, the methods of manufacture and the articles made thereunder when the article, as here, is itself a secret article with its ingredients and their proportions unknown and undisclosed by the article as sold and inspection thereof, are both property and legal monoplies and until either voluntary disclosure to or lawful discovery by the public of the secrets of process, ingredients and proportions are protected as monopolies, and the fact that such right and monopoly are terminable by voluntary disclosure or by lawful discovery makes no difference in their extent while the secrets exist. While the secrets continue the property right and monopoly are absolute.

Powell v. *Birmingham Vinegar Co.*, 13 R. P. C., 253; 65 Law Journal, Chancery Division, 563; 14 R. P. C., 720, 728.

Peabody v. *Norfolk,* 98 Mass., 452.

Stewart v. *Hook,* 118 Ga., 445; 45 S. E., 369.

Tabor v. *Hoffman,* 118 N. Y., 30; 23 N. E., 12.

Eastman Co. v. *Reichenback,* 20 N. Y. S., 110.

Simmons Co. v. *Waibel,* 1 So. Dak., 488; 47 N. W., 814.

National Tube Co. v. *Eastern Tube Co.,* 13 O. Cir. Dec., 469, 471.

Lord Justice Lindley said in *Powell* v. *Birmingham Co.,* 13 R. P. C., 253:

> "If a man has a secret invention by which he can make an article better or cheaper than other people, he practically has a monopoly in that article until his secret is discovered, or some one else can make a better or cheaper article. There is no limit to the duration of this monopoly."

In the House of Lords, 14 R. P. C., 725, the Lord Chancellor said (728):

> "The composition of the well known commercial article is a secret. The exclusive manufacture of it is by the person who knows the secret and nobody else can manufacture it because they do not know how it is made."

(*c*) It is alleged and admitted that petitioner has kept its processes, formulas and methods unknown to the public, and that all are existing trade secrets and that there has been no disclosure or communication to the public. The doing of anything which, does not disclose the secret, but on the contrary, carefully conserves it, cannot be tortured into publication or abandonment and such is the ruling of the authori-

ties. The public sale and use of an article, the elements or ingredients of which are not discoverable by inspection or analysis is not prior use within the meaning of the patent law so as to invalidate a patent subsequently granted and hence not disclosure abandoning the trade secret right and monopoly.

Ranson v. *Mayor,* 1 Fish. Pat. Cas., 267.
Boyd v. *Cherry,* 50 Fed. Rep., 279.
Matheson v. *Campbell,* 69 Fed. Rep., 597.

In *Boyd* v. *Cherry,* 50 Fed., 279, 283, Judge McCrary said:

> "If the alleged prior use of the process was under such circumstances that the public obtained no knowledge of the mode of its operation or the results to be obtained by it, there is no prior use within the meaning of the patent law."

Goodyear Co. v. *Day,* Fed. Cas., 5566, Grier Circuit Justice, and Dickerson, District Judge, declared:

> "The question of abandonment must always depend in a great measure on the peculiar nature of the subject matter. The mere sale of a peculiar manufacture—as vulcanized rubber—which does not on its face, disclose the nature of the compound, or the mode of producing it, is not such an abandonment."

In *Tabor* v. *Hoffman,* 41 Hun, 5, Judge Haight says:

> "The principle is well settled that an author or inventor has an exclusive property in his own composition or invention until its publication to the world (*Hammer* v. *Barnes,* 26 How., 174; *Kiernan* v. *The M. Q. T. Co.,* 50 id., 194; *Potter* v. *McPherson,* 21 Hun., 559; *Palmer* v. *DeWitt,* 47 N. Y., 532; *Peabody* v. *Norfolk,* 98 Mass., 452; 2 Story's Eq. Jur., Sec. 952). This the appellant concedes

and it, therefore, becomes necessary to determine whether the plaintiff's invention has been delivered to the world. So far as the patented pump is concerned, the plaintiff has doubtless no further exclusive property in the invention. The plans and specifications from which the machine was constructed were placed on file in the patent office, where they became the property of the public, and all persons desiring may have copies thereof. The time within which the plaintiff was secured the sole right to manufacture and sell by the terms of the patent, having expired, any person is at liberty to now engage in the manufacture and sale of such machines. But as to the improved machine, the subsequent inventions, a different question is presented. These improvements have never beon patented and, consequently, the plaintiff is unable to claim protection through the patent laws. He has invented and constructed patterns from which he has manufactured the improved pump. The pump so manufactured has been sold, and in that way given to the public; but the patterns from which it was manufactured have never been sold, but have always been kept subject to his own control and management. The sale of the machine does not amount to a publication of the patterns, plans and specifications from which the machine was constructed. It is possible that an individual may be able to procure plans and specifications and construct patterns from the machine that has been sold, and yet there are doubtless instances in which machinery is so complicated that it would be extremely difficult, if not impossible, so to do. In such a case the sale of the machine and its publication to the world would not enable others to manufacture and sell the same machine for the reason that the plans, specifications, patterns and devices by which the same was manufactured still remained a secret, locked up in the inventor's manufactory. Suppose, for instance, that the successful operation of the machine required it to be

> constructed of a composition or combination of metals, which was the device and invention of the manufacturer; could it be said that the sale of the machine, to be devoted to the uses for which it was constructed, carried with it the right to the secret formula by which the inventor had compounded the material of which it was constructed, or the manner in which the material had been treated and prepared for use? We think not. Take a more common illustration, one with which the courts are familiar, having been the subject of frequent adjudications, that is, the compounding of medicines for specific diseases, where the inventor maintains the secret of the componding as a part of his trade or business. The courts have uniformly restrained all persons in his employ who necessarily become possessed of the formula in the manufacture of the article, from subsequently engaging in its manufacture, or from imparting it to others, thus in effect holding that the sale of the compounded article to the world was not a publication of the formula or device used in its manufacture."

On appeal the case was affirmed, *Tabor* v. *Hoffman*, 23 N. E., 12; 118 N. Y., 30, and it was said:

> "The courts have frequently restrained persons who have learned a secret formula for compounding medicines, beverages and the like, while in the employment of the proprietor from using it themselves or imparting it to others to his injury, thus, in effect holding, as was said by the learned general term, 'that the sale of the compound article to the world was not a publication of the formula or device used in its manufacture.'"

(*d*) There is no distinction in principle between a trade secret article and patented article or a copyright publication in this regard. The reasons which permit the patentee or copyright proprietor to limit and restrict the sale or distribution of his article are pre-

cisely the same as the reasons which permit the owner of a trade secret article in the same way to limit and control. Each has the sole right to make, use and license the use of process or article made thereunder and the power to refrain from selling the article to any one on any terms and need not make the article unless he desire, and having ceased or refused to manufacture no one can deal in the article because it cannot be made by any one else. Having these rights and powers the possessor of a trade secret may restrict his sales in any way he pleases; and as he is the sole and exclusive owner of the secret the public has absolutely no interest in it. In both cases the article has never fallen into the public domain, the public has no rights therein and limitations put upon who may buy or at what prices invade no public right and inflict no public wrong.

Trade secrets and trade secret products are put, precisely, so far as the monopoly is concerned, upon the same basis as articles made under or covered by letters patent.

Harrison v. *Glucose Co.*, 116 Fed., 304.
Standard Fire Proofing Co. v. *St. Louis Co.*, 177 Mo., 559; 76 S. W., 1008.
Tode v. *Gross*, 137 N. Y., 480; 28 N. E., 469.
Clark v. *Frank*, 17 Mo. App., 602.
Chicago Board of Trade v. *Christie Co.*, 198 U. S., 236.
In re Park, 138 Fed., 421.
Rubber Tire Wheel Co. v. *Milwaukee Rubber Works*, 142 F. R., 531.

In *Board of Trade* v. *Christie Co.*, 198 U. S., 236, it was urged that the restrictive contracts between the

Board of Trade and the telegraph companies which forbade communication by the companies of the quotations to any person not previously approved by the Board of Trade and which approval or designation was dependent upon entering upon a prior contract with the Board that the broker would not conduct or furnish the quotations to a bucket shop, were in restraint of trade and void both at common law and under the anti-trust statute, but it was held that the objection was not well taken and was said:

> "In the first place apart from special objections, the plaintiff's collection of quotations is entitled to the protection of the law. It stands like a trade secret. The plaintiff has the right to keep the work which it has done, or paid for doing, to itself. * * * But so far as these contracts limit the communication of what the plaintiff might have refrained from communicating to any one, there is no monopoly or attempt at monopoly, and no contract in restraint of trade, either under the statute or at common law. (*Bement & Sons* v. *National Harrow Co.*, 186 U. S., 70, 46 L. Ed., 1058, 22 Sup. Ct. Rep., 747; *Fowle* v. *Park*, 131 U. S., 88, 33 L. Ed., 67, 9 Sup. Ct. Rep., 658; *Ellmian* v. *Carrington* (1901), 2 Ch., 275)."

That is to say, the Board of Trade had the right to refrain from communicating this information to any one; hence follows the right to limit the communication in any way it sees fit and such limitations are not in restraint of trade. "It stands like a trade secret. The plaintiff has the right to keep the work * * * to itself" and consequently having the right to refrain from communicating at all, if it sees fit to communicate, it may do so with limitations, for having the greater right, it has the less. Apply this to the present case. Petitioner has the sole right to make its

remedies since it is the only person who *can make* them. It has, therefore, the right if it choose, to refrain from making them, or may make and refrain from selling. The public cannot and never could get these articles on any terms unless petitioner chooses and there is no distinction between the medicines and the secret processes of manufacture because the articles embody and result from the process and except by and through the secret processes cannot be made. Moreover, in the present case the secrecy or privacy is not lost by sale and use of the articles because the ingredients of these medicines and their proportions are unknown still. The contract system of the Board of Trade by which it protected and restricted the use of its quotations was in principle similar with the system of petitioner and consisted of sale to the telegraph companies under limitations as to customers and designation of those customers only upon direct restrictive contracts with the Board of Trade.

(*e*) Plans similar to that of petitioners but passing title to the articles from maker to wholesale and then from wholesaler to jobber have been repeatedly recognized and protected by the federal courts in carefully considered opinions upon the ground of direct analogy between the rights and monopolies of patented and trade secret articles.

Dr. Miles Medical Co. v. *Goldthwaite*, 133 Fed., 794.

Dr. Miles Medical Co. v. *Jayne*, 149 F. R., 838.

Hartman v. *Park*, 145 Fed., 358.

Dr. Miles Medical Co. v. *Platt*, 142 Fed., 606.

Park v. *Bruen*, 139 F. R., 698.

Hartman v. *Platt*, 142 Fed., 606.

World's Dispensary Medical Assn. v. *Platt*, 142 Fed., 606.

In re Park, 138 Fed., 421.

Wells & Richardson Co. v. *Abraham*, 146 Fed., 190, affirmed C. C. A., 2nd Cir., Nov. 20, 1906.

Loder v. *Jayne*, U. S. C. C., Eastern District Penn.

Judge Holland's Charge to the Jury (not reported but quoted from Appeal Record).

Jayne v. *Loder* (C. C. A., 3rd Cir.), 149 F. R., 21.

In *Wells & Richardson Co.* v. *Jayne Drug Co.*, 149 F. R., 838, it was said by Judge Colt, after an elaborate oral discussion and briefs raising the identical question involved here:

> "The bill alleges that the complainant is the exclusive owner of these secret formulas, and the exclusive manufacturer of these remedies. It follows that, until voluntary disclosure or lawful discovery, the complainant has an exclusive property in these trade secrets, and has the exclusive right to make, use, and vend the articles made thereunder. The exclusive right of property in a trade secret is of necessity a monopoly, the same as a patent or a copyright. The complainant may make these articles, or refrain from making them. It may sell them, or refrain from selling them. It may sell them to one person, and not to another, and at such prices and upon such conditions as it may deem most advantageous. Contracts like those set out in the bill concerning articles made under trade secrets, the same as similar contracts concerning articles made under a patent or a

copyright, are outside the rule of restraint of trade, whether at common law or under the Feeral statute. *Hartman* v. *Park,* 143 Fed. Rep., 358; *Dr. Miles Medical Company* v. *Platt,* 142 Fed. Rep., 606; *Wells & Richardson Company* v. *Abraham,* 146 Fed. Rep., 190; *Dr. Miles Medical Company* v. *Goldwaite,* 133 Fed. Rep., 794; *Bement* v. *National Harrow Company,* 186 U. S., 70; *Board of Trade* v. *Christie,* 198 U. S., 236, 252; *Garst* v. *Harris,* 177 Mass., 72, 74; *Fowle* v. *Park,* 131 U. S., 88, 97; *Park & Sons Company* v. *National Wholesale Druggists' Association,* 175 N. Y., 1; *Standard Fireproofing Company* v. *St. Louis Company,* 177 Mo., 559; *Victor Company* v. *The Fair,* 123 Fed. Rep., 424; *Heaton-Peninsular Company* v. *Eureka Company,* 77 Fed. Rep., 288; *Central Shade Company* v. *Cushman,* 143 Mass., 353; *Good* v. *Daland,* 121 N. Y., 1."

In *Dr. Miles Medical Co.* v. *Platt,* 142 Fed., 606, Judge Kohlsaat said, in reference to this plan:

"That the contract, serial number and card system is valid and lawful is thoroughly settled by the authorities. The products being made under trade secrets, of which complainants are the exclusive owners and no other person having any interest in or right to the secret formulas under which the articles are made, or to the articles themselves, the manufacturers may withhold them entirely from sale, may sell them on such terms as they please, may withhold them from one person while selling to others, and may fix any price in their sole and exclusive discretion. This rule is abundantly settled.

* * * * *

The right of a patentee, owner of a copyright or owner of a secret process is merely the right of exclusion or debarment. The holder of such a property right, as said by the court in the Victor talking Machine case above cited, is a czar in his own domain. He may sell or not, as he chooses. He may fix such prices as he pleases. He may

sell at one price to one person, and another to another person. He is not required to give reasons or deal fairly with purchasers."

In *Wells & Richardson Co.* v. *Abraham,* 146 F. R., 190, Judge Thomas said:

"The contracts with the complainant's vendees are legal. Resort need not be had to the voluminous briefs submitted, for the defendants in their brief say:

'The validity of these contracts as between the parties is nowhere attacked. On the contrary, the whole argument proceeded on the theory that, though as between the parties thereto such contracts could probably be enforced, third parties who did not assent thereto, and who were under no contractual obligation to the complainant, could not in the absence of proof of fraud or conspiracy be compelled to observe such contracts, in the case of articles made under secret processes, any more than if such articles were not made under secret processes, and that the patent cases which granted such remedy had no application to the case at bar.'

The concession as to the legality of the contract accords with the decision in *Park & Sons Co. v. National Wholesale Druggists' Association,* 175 N. Y., 1, 67 N. E., 136, 62 L. R. A., 632, 96 Am. St. Rep., 578; *Garst v. Harris,* 177 Mass., 72, 58 N. E., 174; *Garst* v. *Charles,* 187 Mass., 144, 72 N. E., 839."

This conclusion was affirmed by the Circuit Court of Appeals, Second Circuit, November 20th, 1906, in the following language:

"The assignments of error do not require us to decide whether the terms of the injunction are broader than the case warrants. The fifteenth assignment is the only one directed to the point, and does not specify any particulars in which the terms are too broad.

For reasons stated on the argument we are of the opinion that we are not authorized to pass upon the question of jurisdiction presented.

Upon the principal question argued we are not convinced of the unsoundness of the conclusions of Judge Thomas as expressed in his opinion in the court below, and see no reason for departing from our usual custom not to formulate an extended opinion on appeals from orders for preliminary injunctions where we affirm the court below unless we disapprove the reasoning of its opinion.

The order is affirmed.

WALLACE, Circuit Judge:

I do not agree with the majority of the court that we are not authorized to pass upon the question of the jurisdiction of the court below. In *Boston & Maine Railroad Co.* v. *Cokey*, lately decided by this court, I have given the reasons why I think the court should no longer adhere to its decisions in *United States* v. *Lee Yen Tai* (113 F. R., 465) and *Fisheries Co.* v. *Lennan* (130 F. R., 533). I think, however, that the bill shows a case in which the requisite jurisdictional amount is involved. One of the rights sought to be protected by the complainant is its system of contracts, which is alleged to be of the value of more than $2,000; and the bill alleged that the acts of the defendant which are complained of are destructive thereof."

In *Loder* v. *Jayne*, C. C. East. Dist. Penn., which was a suit to recover triple damages under the Federal Anti-Trust statute arising to the complaint from an alleged conspiracy and boycott, in a very elaborate charge to the jury, Judge Holland, among other things, stated:

"It is true, as claimed by the defendants, that any proprietor of a patent medicine, or goods such as those involved in this suit, has a right to

sell his goods, or refuse to sell them, to whomsoever he may see fit, and he may lawfully say who shall handle his goods at wholesale, and upon what conditions the wholesaler may dispose of them to the retailer, and prescribe the conditions upon which the retailer shall sell them to the consumer, and in case of any violation of his agreement by either the wholesaler or retailer, the proprietor has a lawful right to refuse to sell his goods in the future to either. And so the wholesaler has the lawful right to purchase, or refuse to purchase, goods from a proprietor, or to sell, or refuse to sell to a retailer, and the wholesaler or proprietor has a lawful right to refuse to sell to a retailer who he finds is cutting the prices below what either of them contracted with the retailer to sell the goods at."

And, upon requests tendered by the defendants, also charged as follows:

"'The manufacturer of a proprietary medicine or food, manufactured under a trade secret or trade mark, to which such manufacturer has given value by advertisement and personal efforts, has a right to prescribe the price of his product and to bind purchasers from him not to sell the same at a less price, or to resell to such persons as shall be by him designated. It is the duty of all purchasers of goods from such manufacturer under such circumstances to carry out his contract. The manufacturer subjects himself to no liability to persons to whom he refuses to sell, whether his reasons therefor be good or purely capricious.'

This is true.

'The manufacturer of a proprietary medicine or food, manufactured under a trade secret or trade mark, to which such manufacturer has given value by advertisement and personal efforts, is entitled to prescribe as one of the terms of the sale to others, of his manufactured product, that

> they shall not resell the goods purchased from him to persons who have aggressively cut prices of such, or similar goods, or who sells to such aggressive cutters. He exposes himself to no liability for damages by reason of his thus not selling or refusing to sell to such aggressive cutters, or to such persons dealing with them.'
>
> This is true.
>
> 'The purchasers from manufacturers under such contracts have a right to refuse to resell the goods thus purchased, to persons designated by the proprietor, without exposing themselves to any liability to damage in favor of the person to whom they have thus refused to resell.''
>
> This is true.''

This case was appealed and in passing upon various questions, the Circuit Court of Appeals, of the Third Circuit (*Jayne* v. *Loder,* 149 F. R., 21), after stating the contentions and arguments on behalf of both parties, said:

> ''Undoubtedly the originator and compounder of a proprietary medicine may shape his own policy and sell or withhold from selling as he pleases, according to supposed self-interest or whim, fixing the prices and naming the terms and conditions at and upon which alone he will do so, refusing to those who will not comply. And so far as this is confined to his own goods, and pursued by independent and individual action, it cannot be challenged,''

and then proceeded to condemn arrangements between different manufacturers relating to goods manufactured by them whereby the prices of all were sustained.

And adjudications upon contracts and methods similar in form and identical in legal principles and result

are to the same effect and based upon the same reasoning.

Fowle v. *Park,* 131 U. S., 88, 97.
National Tel. News Co. v. *West. Union Tel. Co.,* 119 F. R., 294.
Board of Trade v. *Christie Co.,* 121 F. R., 608, 198 U. S., 236.
Garst v. *Harris,* 177 Mass., 72, 58 N. E., 174.
Garst v. *Charles,* 187 Mass., 144, 72 N. E., 839.
Park v. *National Wholesale Druggists' Assn.,* 175 N. Y., 1, 67 N. E., 136.
Bancroft v. *Union Embossing Co.,* 72 N. H., 402, 57 at Rep., 96.
Elliman v. *Carrington* (1901), 2 Ch., 275, 84 L. T. (N. S.), 858.

In *Garst* v. *Harris,* 177 Mass., 72, 58 N. E., 174, Holmes, C. J., said:

> "This is an action of contract to recover $21 as liquidated damages for breach of an agreement not to sell Phenyo-Caffein below a stipulated price. Phenyo-Caffein was a proprietary medicine purchased by the defendant of the plaintiff. At the time of the sale, and as a part of it, a written statement of terms, containing this agreement was read to the defendant and delivered to him. One stipulation expressed in the document was that the acceptance of the goods, with the notice of the conditions of the sale should be an assent to the terms. The defendant accepted the goods, and expressed no dissent. There is no question, therefore, that he agreed to those terms upon the consideration of the sale, which was made with a deduction from the full retail price. The defendant sold the goods so purchased below the stipulated price, and broke his contract. So much of the defendant's argument as denies the agree-

ment, the consideration, or the applicability of the contract to the goods sold, needs no further discussion.

The rest of the defense needs but a few words. It is said that the contract was unlawful, as in restraint of trade. Some limits were set to the inherited doctrine on this subject by the recent case of *Electric Co.* v. *Hawkes,* 171 Mass., 101, 50 N. E., 509, 41 L. R. A., 189, as they had been in England before. When, as here, there is a secret composition, which the defendant presumably would have no chance to sell at a profit at all, but for the plaintiff's permission, a limit to the license, in the form of a restriction of the price at which he may sell, is proper enough. See *Machine Co.* v. *Morse,* 103 Mass., 73; *Roller Co.* v. *Cushman,* 143 Mass., 353, 9 N. E., 629; *Gloucester Isinglass & Glue Co.* v. *Russia Cement Co.,* 154 Mass., 92, 27 N. E., 1005, 12 L. R. A., 563; *Fowle* v. *Park,* 131 U. S., 88, 97, 9 Sup. Ct., 33 L. Ed., 67; *Walsh* v. *Dwight,* 40 App. Div., 513, 58 N. Y. Supp., 91."

This decision was followed in

Garst v. *Charles,* 187 Mass., 144, 72 N. E., 809.

(*f*) The wholesale agency direct contract system is at most only a partial restraint of trade. It is founded on the discovery and origination of the medicines, and their sole right of manufacture and sale because trade secrets; the use of trade names and trade dress; the exploitation and establishment of the trade therein by the proprietor at his sole expense; the utilization of good will accompanying each sale by the buyer for resale; and limited to the proprietor's articles alone, and is therefore on a partial, a reasonable and proper protection to the trade and good will. The title remains in the maker until the article is bought by the retail dealer and such dealer is the only owner prior

to the consumer who is in any way limited or restrained. The restriction is between the petitioner and its immediate and direct vendee. Under such circumstances the producer has the right to dictate method and prices of marketing its product. Indeed, any individual producer without combination with other makers is entitled to control the prices and disposition of his own product.

Hartman v. *John D. Park & Sons Co.*, 145 F. R., 358.

Oregon Nav. Co. v. Winsor, 20 Wall., 64.

Fowle v. *Pank*, 131 U. S., 88.

Donovan v. *Penna. Co.*, 199 U. S., 279.

Anamate Packet Co. v. *Bag*, 200 U. S., 179.

Dueber Watch Case Co. v. *E. Howard Co.*, 55 F. R., 85; 66 F. R., 637.

Weiboldt v. *Standard Co.*, 80 Ill. App., 67.

Walsh v. *Dwight*, 58 N. Y. Supp., 91.

Whitwell v. *Continental Tob. Co.*, 125 F. R., 454.

Phillips v. *Iola Cement Co.*, 125 F. R., 593.

Morse, &c., Co. v. *Morse*, 103 Mass., 73.

Diamond Match Co. v. *Roeber*, 106 N. Y., 473, 13 N. E., 419.

Harrison v. *Glucose Co.*, 116 Fed., 304.

Booth v. *Davis*, 127 Fed., 875; 131 Fed., 31.

General Electric Co. v. *Wise*, 119 Fed., 922.

American Brake Beam v. *Pangs*, 141 Fed., 926.

Camoens-McConnell Co. v. *McConnell*, 140 Fed., 412.

Maxim-Nordenfelt Gun Co. v. *Nordenfelt*, L. R. (1893), 1 Ch., 630; 71 L. T. R., 489 (1894), A. C., 535.

National Phonograph Co. v. *Edison Bell Co.*, — — (1908), 1 Ch. Div., 335.

Dunlap Cable News Co. v. *Stone*, 15 N. Y. S., 2.

State v. *Associated Press*, 159 Mo., 410; 60 S. W., 91.

Matthews v. *Associated Press*, 15 N. Y. S., 887; 136 N. Y., 333; 82 N. E., 981.

Jarvis v. *Knapp*, 121 F. R., 34.

Thibodeau v. *Hildreth*, 124 F. R., 892.

New York Bank Note Co. v. *Hamilton Bank Note Co.*, 31 N. Y. S., 1060; 180 N. Y., 280; 73 N. E., 48.

N. Y. Cotton Exch. v. *Hunt.*, 144 Fed., 511.

Board of Trade v. *Cella Co.*, 145 Fed., 28.

Clark v. *Cyclone Woven Wire Fence Co.*, 22 Tex. Civ. App., 41; 54 S. W., 392.

Commonwealth v. *Grinsted*, 108 Ky., 59; 111 Ky., 203; 55 S. W., 720; 57 S. W., 471; 63 S. W., 427.

Sperry & Hutchinson Co. v. *Mechanics Clothing Co.*, 135 F. R., 833.

Sperry & Hutchinson Co. v. *Temple*, 137 F. R., 992.

American Strawboard Co. v. *Haldeman Paper Co.*, 83 F. R., 619.

Hitchcock v. *Anthony*, 83 F. R., 779.

National Enam., &c., Co. v. *Haberman*, 120 F. R., 415.

Hodge v. *Sloan*, 107 N. Y., 244; 17 N. E., 335.

Newell v. *Meyendorf*, 9 Mont., 260; 23 Pac. Rep., 334.

Cowan v. *Fairbrother,* 118 N. C., 412; 24 S. E., 213.

Moore Hardware Co. v. *Towers Co.,* 87 Ala., 210; 6 South., 43.

(*g*) The right of a maker of a proprietary article or one sold in connection with good will to fix prices and control distribution is not taken away by the Act of July 2, 1890.

Bement v. *National Harrow Co.,* 187 U. S., 70.

Board of Trade v. *Christie Co.,* 121 F. R., 608; 198 U. S., 236.

Phillips v. *Iola Cement Co.,* 125 F. R., 593.

Bancroft v. *Union Em. Co.,* 72 N. H., 402; 57 At., 96.

Whitwell v. *Cont. Tob. Co.,* 125 F. R., 454.

Booth v. *Davis,* 127 F. R., 875; 131 F. R., 31.

Field v. *Barber Asphalt Pav. Co.,* 194 U. S., 618.

Walsh v. *Dwight,* 58 N. Y. S., 91.

Hopkins v. *U. S.,* 171 U. S., 578.

Anderson v. *U. S.,* 171 U. S., 604.

U. S. v. *E. C. Knight Co.,* 156 U. S., 1.

Park v. *National Wholesale Druggists Assn.,* 175 N. Y., 1; 67 N. E., 136.

(*h*) As long as a manufacturer retains title to, and immediate control over, his products, there can be no question of monopoly or restraint of trade. Courts have held again and again that in agency and consignment there can be nothing monopolistic, or in restraint of trade. In the present case the wholesale contracts

are agency or consignment contracts and thus, in restricting the prices and buyers from retailers, the arrangement is a direct one between the maker and retail vendor. The case is therefore stronger for petitioner than the decisions in systems where the initial contracts were contracts of sale and passed title.

That the wholesale contracts are consignment contracts, see

Milburn v. *Peak* (Tex.), 34 S. W., 102.
Wilcox & Gibbs Co. v. *Ewing,* 141 U. S., 627.
Metropolitan Bank v. *Benedict,* 74 Fed., 182.
Atlas Glass Co. v. *Ball Bros. Glass Co.,* 87 Fed., 418.
In re Galt, 120 Fed., 64.
In re Flanders, 134 Fed., 560.
Briggs v. *Foster,* 137 Fed., 773.
Butler Bros. Co. v. *U. S. Rubber Co.,* 156 Fed., 1.
McCullough v. *Porter,* 4 W. & S. (Pa.), 177.
Keystone Watch Co. v. *Fourth St. Nat. Bank,* 194 Pa. St., 535; 45 At. Rep., 328.
Cannon Coal Co. v. *Taggart,* 1 Colo. App., 60; 27 Pac., 238.
First National Bank of Elgin v. *Scheen,* 127 Ill., 573.
Hunter v. *Gordon,* 33 Ill., App., 464.
Lenz v. *Harrison,* 148 Ill., 598; 36 N. E., 567.
Bayliss v. *Davis,* 47 Iowa, 340.
Norton v. *Mellick,* 97 Iowa, 564; 66 N. W., 780.
Eldridge v. *Benson,* 61 Mass., 483.
Hotch v. *McBrien,* 83 Mich., 159; 47 N. W., 214.

Olney v. *Van Heusen*, 3 Thomp. & C., 313.
Elwell v. *Coon* (N. J.), 46 At., 580.
Lambeth Rope Co. v. *Brigham*, 49 N. E., 1022.
Monitor Mnfg. Co. v. *Jones* (Wis.), 72 N. W., 44.
Reaper Co. v. *Raynor*, 38 Wis., 119.
Metropolitan Nat. Bank v. *Benedict Co.*, 74 Fed. Rep., 182.
Burton v. *Goodspeed*, 69 Ill., 237.
Walker v. Buttrick, 105 Mass., 237.
National Cordage Co. v. *Sims*, 44 Neb., 148.
Sturm v. *Baker*, 150 U. S., 312.
Balderston v. *National Rubber Co.*, 18 R. I., 338.
Barnes Safe & Lock Co. v. *Bloch Bros. Tobacco Co.*, 38 W. Va., 158.
National Bank v. *Goodyear*, 90 Ga., 711.
Moline Plow Co. v. *Rodgers*, 53 Kan., 743.

That there is no restraint of trade in agency contracts, see

Rice v. *Brook*, 20 F. R., 611, 613.
Weed v. *Adams*, 37 Conn., 378, 380.
Barksdale v. *Brown*, 1 Nott & McCord, 517, 519.
Scott v. *Rogers*, N. Y. Ct. App. Dec. 4 Abb., 157, 159.
Field v. *Farrington*, 10 Wall., 141, 149.
Brown v. *McCrau*, 14 Pet., 479.
Cotton v. *Hiller*, 52 Miss., 7, 13.
Union Hardware Co. v. *Plume & Atwood Co.*, 58 Conn., 219, 20 At., 455.

Welsch v. *Phelps & Bigelow Wind Mill Co.*, 89 Tex., 653; 36 S. W., 71.

Weiboldt v. *Standard Fashion Co.*, 80 Ill. App., 67.

W. A. Wood Co. v. *Greenwood Hardware Co.*, 75 S. C., 376; 55 S. E., 973; 9 L. R. A. (N. S.), 501.

Keith v. *Hirschberg Optical Co.* (Ark.), 2 S. W., 777.

Roller v. *Ott*, 14 Kan., 609.

Newell v. *Meyrendorff*, 9 Mont., 260; 23 Pac., 334.

Payne v. *Railway Co.*, 81 Tenn., 507.

Whitwell v. *Tobacco Co.*, 125 F. R., 454, 461.

C. C. C. & St. L. R. Co. v. *Jenkins*, 174 Ill., 398, 404.

Live Stock Co. v. *Live Stock Exch.*, 143 Ill., 210, 234.

Robinson v. Texas Pine Land Assn. (Tex. Civ. App.), 40 S. W., 843.

Hunt v. *Simonds*, 19 Mo., 583, 586.

Schulten v. *Bavarian Brewing Co.*, 96 Ky., 224; 28 S. W., 504, 505.

Baker v. *Ins. Co.* (Ky.), 64 S. W., 913; 64 S. W., 967.

McCune v. *Norwich Gas Co.*, 30 Conn., 521, 524.

N. Y., Chicago & St. L. Ry. v. *Schaffer*, 65 O. St., 414; 62 N. E., 1036; 62 L. R. A., 931.

Brewster v. *Miller*, 101 Ky., 368; 41 S. W., 301, 303.

Anderson v. *U. S.*, 171 U. S., 604.

Matthews v. *Associated Press*, 136 N. Y., 333; 32 N. E., 981.
Star Pub. Co. v. *Associated Press*, 159 Mo., 410; 60 S. W., 91; 51 L. R. A., 151.
People v. *Klaw*, 106 N. Y. S., 341, 347.

(5) The secondary questions arising from the protection sought by petitioner are also important both to petitioner and proprietors of remedies marketed under similar plans and to the commercial world generally, and while there is not much conflict of authority, are worthy of consideration and determination by this tribunal. Perhaps indeed since the decision of this court December 2nd, 1907, in *Bitterman* v. *L. & N. Ry. Co.*, 207 U. S., 206, announced subsequently to the decision in *Park & Sons Co.* v. *Hartman, supra*, it may be said that such question is settled in favor of petitioner.

Petitioner has a property right to maintain his system, if legal, and prevent its violation by procuring the medicines through inducing breach of such contracts by fraud or persuasion, and then mutilating and selling in mutilated form and at cut prices medicines marketed under the system and so obtained. Respondent admits full knowledge of that plan and deliberately and constantly obtaining the remedies by fraud and persuasion to violate contracts. The mutilation of the packages is to obliterate the identifying serial numbers and thus conceal the fraudulent source of supply and the result is to destroy the trade-marks, trade-names and trade-dress and obliterate the directions for use and knowledge of the purposes for which the remedies are designed and intended. This must re-

sult in ruin of reputation and destruction of good will and trade.

The things, therefore, for which petitioner seeks protection are its method of doing business, its system of contracts and the *indicia* and identifying features by which its preparations may be recognized by the public and the directions for use and printed matter which enable the purchaser to use the medicines advantageously. Each and all of these are property rights and protectable.

(*a*) *Business system protectable.*

Nashville, C. & St. L. Ry. v. *McConnell,* 82 Fed., 65.

Walker v. *Cronin,* 107 Mass., 555.

Plant v. *Woods,* 176 Mass., 92; 57 N. E., 1011.

Moran v. *Dunphy,* 177 Mass., 492; 59 N. E., 125.

Heath v. *American Book Co.,* 97 F. R., 533.

West Va. Trans. Co. v. *Standard Oil Co.,* 50 W. Va., 611; 40 S. E., 591.

Doremus v. *Hennessey,* 176 Ill., 608.

Van Horn v. *Van Horn,* 32 N. J. L., 284; 20 At. Rep., 485.

Chipley v. *Atkinson,* 23 Fla., 206; 1 So., 934.

Angle v. *Chi., St. P. & M. Ry. Co.,* 151 U. S., 1.

Lucke v. *Clothing Cutters & T. Assn.,* 77 Md., 396; 26 At., 505.

Barr v. *Essex Trades Council,* 53 N. J. Eq., 101; 30 Atl. Rep., 881.

Flaccus v. *Smith,* 199 Pa. St., 128; 48 At. Rep., 894.

O'Neill v. *Behanna,* 182 Pa. St., 236; 37 At., 843.

Jersey Printing Co. v. *Cassidy,* 63 N. J. E., 759; 53 A., 230.

Quinn v. *Leatham,* L. R. (1901), App. Cases, 495; 89 L. T. (N. S.), 289.

(*b*) The procuring or inducing by third parties of contract violation either by persuasion of fraud is a tort (1) actionable and (2) if repeated enjoinable.

(1) *Glamorgan Coal Co., Ltd.* v. *South Wales Miners Federation* (1903), 1 K. B., 118; 2 K. B., 545; 89 L. T. (N. S.), 393.

Angle v. *Ry. Co.,* 151 U. S., 1.

West Virginia Transportation Co. v. *Standard Oil Co.,* 50 W. Va., 611; 40 S. E., 591.

Walker v. *Cronin,* 107 Mass., 555.

Chipley v. *Atkinson,* 23 Fla., 206; 1 So., 934.

Benton v. *Pratt,* 2 Wend., 385.

Rice v. *Manley,* 66 N. Y., 82.

Lumley v. *Gye,* 2 El. & Bl., 216.

Plant v. *Woods,* 176 Mass., 92; 57 N. E., 1011.

Van Horn v. *Van Horn,* 52 N. J. Law, 284; 20 Atl., 485.

Bowen v. *Hall,* 6 Q. B. D., 333.

Cattle v. *Stockton Water Works Co.,* L. R., 10 Q. B., 543, 548.

Heath v. *Am. Book Co.,* 97 Fed., 533.

Hartman v. *John D. Parks & Sons Co.,* 145 Fed., 358.

Hartman v. *Platt,* 142 Fed., 606.

Bitterman v. *Louisville & Nashville R. R.,* 207 U. S., 206.

(2) *Nashville, &c., R. R. Co.* v. *McConnell,* 82 F. R., 65.

Board of Trade v. *Christie Co.,* 198 U. S., 236.

Exchange Telegraph Co. v. *Central News* (1897), 2 Ch., 48; 76 L. T. (N. S.), 591.

Exchange Tel. Co. v. *Howard Agency,* L. T., Vol. 120, Mch. 31, 1906.

Kinner v. *L. S. & M. S. Ry. Co.,* 69 N. E., 614.

Schubach v. *McDonald,* 179 Mo., 163; 78 S. W., 1020.

American Law Book Co. v. *Ed. Thompson Co.,* 84 N. Y. S., 225.

Penna. R. R. Co. v. *Beckman,* 30 Wash. L. Rep., 715.

L. & N. R. R. v. *Bitterman,* 128 F. R., 176; 144 Fed., 34.

Fleckenstein Bros. Co. v. *Fleckenstein* (N. J., Ch.), 57 At. Rep., 1025.

Illinois Central R. R. Co. v. *Caffrey,* 128 F. R., 770.

Sperry & Hutchinson Co. v. *Mechanics Clothing Co.,* 128 F. R., 800, 1015.

Sperry & Hutchinson Co. v. *Brady,* 134 Fed., 691.

Sperry & Hutchinson Co. v. *Temple,* 137 Fed. Rep., 992.

National Telephone Co. v. *Western Union Tel. Co.,* 119 F. R., 294.

Flaccus v. *Smith,* 199 Pa. St., 128; 48 At. Rep., 894.

Carroll v. *Chesapeake & Ohio Coal Agency,* 124 Fed., 305, 312.

Garst v. *Charles,* 187 Mass., 144; 72 N. E., 840.

Board of Trade v. *Cella Co.,* 145 Fed., 28.

Board of Trade v. *McDearmott,* 143 Fed., 188.

Knudson v. *Benn,* 123 Fed., 636.

Martin v. *McFall,* 65 N. J. Eq., 91; 55 At., 465.

Wells and Richardson Co. v. *Abraham,* 146 F. R., 190; affd. Cir. Ct. App., 2nd Circuit, Nov. 20, 1906.

It is respectfully urged that the Circuit Court of Appeals erroneously held that the system of contracts relative to petitioner's medicines was void because in restraint of trade, and was not legal and valid either because the remedies were trade secret articles or because the restrictions were reasonable protections for the good will and sale attached to the products and in holding that the wholesale contracts were contracts of sale and not of agency, and also in holding that the conduct of the respondent in procuring the medicines by inducing breaches of contract was unenjoinable.

It is therefore asked that the prayer of the petition be granted and the writ allowed and the decision of the Circuit Court of Appeals reversed.

Respectfully submitted,

FRANK F. REED and
EDWARD S. ROGERS,
Solicitors and of Counsel for Petitioner.

Office Supreme Court U. S.
DEC 7 1910
JAMES H. McKENNEY,

IN THE

Supreme Court of the United States

OCTOBER TERM, 1910.

No. 259 72.

DR. MILES MEDICAL COMPANY,
Petitioner,

vs.

JOHN D. PARK & SONS COMPANY,
Respondent.

On Writ of Certiorari to the United States Circuit Court of Appeals for the Sixth Circuit.

BRIEF AND ARGUMENT FOR PETITIONER.

FRANK F. REED and
EDWARD S. ROGERS,
Counsel for Petitioner.

GUNTHORP-WARREN PRINTING CO., CHICAGO

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JOHN D. PARK & SONS COMPANY,
Respondent.

On Writ of Certiorari to the United States Circuit Court of Appeals for the Sixth Circuit.

BRIEF AND ARGUMENT FOR PETITIONER.

I.

STATEMENT OF THE CASE.

This proceeding was instituted in the Circuit Court for the Eastern District of Kentucky by the Dr. Miles Medical Company, an Indiana corporation, against John D. Park & Sons Company, respondent, a Kentucky corporation. A demurrer was filed and sustained by that court and on appeal this decree was affirmed by the Circuit Court of Appeals, whereupon a petition for certiorari was filed and the writ

allowed. Petitioner is engaged at the City of Elkhart, Indiana, in the manufacture of certain proprietary medicines under secret formulas. The respondent is a wholesale druggist at Cincinnati, Ohio. Each of petitioner's preparations is made under formulas and processes not known or disclosed to the public and each preparation is in itself the embodiment of the secret processes and formulas, and cannot be, as long as the methods of manufacture and ingredients and proportions are kept as secrets, made by any one except petitioner, and each article is sold under a distinctive name and in characteristic and distinctive dress. Each preparation has been extensively advertised and marketed and is well known as the product of petitioner. Since the enactment of the Federal Food and Drug Act of June 30, 1906, its provisions have been in all respects complied with by petitioner; a general guaranty lodged with the Secretary of Agriculture, and the guaranty requisite notice and number stamped on each carton. A valuable good will and demand for petitioner's preparations exists in retail drug stores throughout the country.

The remedies have been put upon the market and sold by petitioner at fixed prices from the beginning. Of late years a method or system of doing business among certain wholesale and retail dealers has been instituted, which has resulted in the prices of well known and advertised proprietary articles being cut so that they are sold at cost or less, thus demoralizing trade conditions and practically destroying the market and sale of the article so cut. Petitioner,

among others, has suffered from these practices. In order to protect its trade and the reputation of its remedies and secure absolute uniformity in and fix the prices of its remedies in the market, and thus get the benefit of the good will created by it, petitioner has adopted and established the system of contracts and sales disclosed in the bill. These contracts are set out in full in the bill and may be summarized as follows:

Petitioner does not *sell* its preparations to wholesale dealers. Under the contract set out it consigns at certain stipulated prices to wholesale druggists as its wholesale distributing agents. The title to all of the preparations so consigned remains absolutely in the petitioner until sold in accordance with the provisions of the contract. The consignee agrees to confine the sale of all the petitioner's products to designated retail agents of the petitioner, as specified in lists of such retail agents furnished by the petitioner, and further agrees to account to and pay the proceeds of all sales after deducting as full compensation for services, charges and disbursements, a commission of ten per cent. of the invoice value, and a further commission of five per cent. on the net amount of each consignment, after deducting the said ten per cent. commission, on all advances remitted within ten days from date of consignment. It is further stipulated that any advances made shall in no manner affect the title of the goods but title shall remain in petitioner as if no advances had been made. The contract also provides for the return of all unsold goods and the consignee guarantees the payment for all goods sold under the agreement,

agrees to render a full account and to remit the net proceeds on the first day of each month of and for the sales of the month preceding. Consignee agrees to furnish to the petitioner from time to time statements of stock. Petitioner agrees to cause each retail package of its goods to be identified by number and the consignee agrees to furnish reports as to the disposition of such numbered goods. It is further agreed that petitioner's preparations shall be sold by the consignee only to the designated or listed wholesale or retail dealers who are styled agents of the petitioner, and at not less than prices specified.

The retail contract in substance provides that the petitioner appoints the retail dealer as one of the retail distributing agents of its proprietary medicines and agrees that the retail dealer may purchase the proprietary medicines of petitioner at certain specified prices and at certain discounts set out. In consideration whereof, the retail dealer agrees not to sell or furnish petitioner's said proprietary medicines to any person, firm or corporation at less than the regular retail price printed on the packages, and not to sell the same at any price to wholesale or retail dealers not accredited agents of the petitioner.

It is alleged that this plan is a reasonable protection for petitioner's trade and good will and that respondent is well advised of the existence of this system and was given an opportunity to become one of petitioner's consignees and declined, but that notwithstanding, respondent, for the purpose of using, selling and disposing of petitioner's propri-

etary medicines to wholesale and retail dealers not authorized to deal therein, by them to be advertised, sold and marketed at cut rates and prices less than the retail prices fixed by petitioner and thus to attract and secure patronage and custom for other merchandise, has unlawfully and fraudulently obtained and procured petitioner's proprietary medicines from its wholesale and retail agents who have executed contracts with petitioner of the tenor and effect of those set out above, directly and indirectly, by means of false and fraudulent representations and statements, and by surreptitious and dishonest methods, and by persuading and inducing petitioner's wholesale and retail agents, under contract as aforesaid, to violate and break the same, and in violation of the terms and conditions of the said contracts to sell and supply petitioner's proprietary remedies to the respondent and that petitioner's remedies are obtained and the violation of the contracts accomplished, by collusion, promises, payment of consideration and untrue statements on the part of respondent.

It is further alleged that after having obtained petitioner's preparations, the cartons, labels and wrappers are systematically mutilated, the identifying serial numbers obliterated and destroyed and directions removed, and that in this condition, the remedies are offered for sale and sold by respondent to wholesale and retail dealers for ultimate sale at cut rates and prices. An injunction is prayed restraining the procuring of contract violations and mutilation and sale of petitioner's products so obtained and so mutilated.

To this bill of complaint a demurrer was filed (Rec., 22) to the entire bill of complaint for want of equity and specially to that part of the bill of complaint which charges mutilation of packages, cartons and labels and seeks an injunction restraining such mutilation and obliteration on the part of respondent.

The Circuit Court sustained the demurrer and dismissed the bill and the Circuit Court of Appeals affirmed the order, on the authority of *John D. Park & Sons Company* v. *Samuel B. Hartman*, 153 Fed., 24, decided March 5, 1907. A petition for certiorari was sought and granted by this court in that case, but before it was reached for argument, the complainant therein abandoned the system and as thereby the question became a moot one, the petition was dismissed. The system of contracts described in the bill in the present case, and now before the court, differs in important particulars from that involved in the Hartman case. The initial contracts between petitioner and its wholesale distributing agents under the present plan are not contracts of *sale*, but contracts of *consignment*. Of this there can be no question from an inspection of the terms of the contracts. Title to the medicines does not pass, but remains at all times in petitioner, and the wholesale dealers are simply petitioner's factors who have possession of certain of petitioner's goods, but no title to them at all, and hold them subject at all times to petitioner's instructions. In this respect the situation is the same as if petitioner itself established branch offices in the various cities of the country,

and since the wholesale distributing agents are in fact agents or factors, the petitioner may impose any terms and conditions with referenec to the sale of its own goods that it may deem expedient. This fact alone effectually distinguishes this case from the Hartman case, but the Circuit Court of Appeals decided both that the contracts between petitioner and the wholesale dealer were sales and not consignments, and that even if construed as consignment or agency contracts the plan was void because in restraint of trade, both at common law and under the Sherman Act.

The situation then is presented in which petitioner through wholesale agents sells its goods to retail dealers on condition that they resell to certain persons and at certain prices. There is no attempt to impose conditions upon goods to which title has previously passed and make these conditions follow the goods upon resale, but direct contracts between petitioner and its vendees, the retail dealer, imposing conditions upon the vendee, the other parties to the contracts. It is contended also that the system disclosed in the case of *Hartman vs. John D. Park & Son Co.*, wherein there were contracts of sale to jobbers and also contracts between the proprietor and retailers governing the disposition of purchases from jobbers, is also legal and valid.

The questions presented are: (1) Whether the plan or system adopted and installed by petitioner for the marketing of its secret or proprietary remedies is legal and valid, or whether it is illegal either at common law or under the statutes. (2) Whether

respondent has infringed the rights of petitioner, and should be enjoined in its conduct when with full knowledge of the contracts and system, it persuades and induces petitioner's agents and purchasers to violate their contracts and to sell in violation of the agency and contract terms. (3) Whether respondent violates rights of petitioner by so obtaining petitioner's remedies and selling the products so obtained in mutilated shape and at cut rates. (4) Whether equity has jurisdiction to enjoin the violations of petitioner's rights set out.

II.

ASSIGNMENT OF ERRORS.

The errors assigned (Rec., 24) are (1) in dismissing the bill of complaint for want of equity at petitioner's cost; (2) in sustaining the general and special demurrer; (3) in denying petitioner the relief prayed in the bill of complaint, and each and every part thereof.

III.

THE FACTS AND CONTRACTS.

The facts in the case set out in the bill of complaint are admitted by the demurrer and have been sufficiently outlined in stating the case. It is, therefore, believed that it is unnecessary to attempt iteration except that for the sake of convenience the averments relative to the secret methods of manufacture

and the contracts with wholesale and retail dealers are here reproduced in the exact language employed.

The bill of complaint avers (Rec., 2):

"Your orator further shows that heretofore, at various times both before and since the organization of your orator, Dr. Franklin Miles, a resident of the City of Elkhart, Elkhart County, Indiana, and a citizen of the State of Indiana, after many years of preparation, investigation and research, and after courses of study in a number of medical colleges and institutions, including the medical department of Columbia College, New York City, the Medical School of Michigan University, Rush Medical College of Chicago, the Chicago Medical College, and the Illinois State Eye and Ear Infirmary, and after many years of extended experience in the practice of medicine, and after long courses of special investigation and experiments, discovered, devised, invented and compounded at various times certain new, useful and valuable medicines, remedies and cures theretofore unknown and undiscovered, and for a valuable consideration paid by your orator to and received by the said Dr. Franklin Miles, said Dr. Franklin Miles has kept and preserved said discoveries, medicines, remedies and cures, and the methods, processes, formulas, recipes, principal ingredients and proportions and methods thereof in each instance as trade secrets and has from time to time assigned, transferred and sold to your orator the said methods and processes, formulas and recipes for preparing, compounding and manufacturing the aforesaid medicines, remedies and cures so discovered, devised, invented, prepared and compounded by him as aforesaid, together with the sole and exclusive right to use and employ said methods, processes, formulas and recipes, and to manufacture, prepare and sell the aforesaid reme-

dies and medicines and cures prepared under and in accordance therewith. That said Dr. Franklin Miles and your orator and the officers and employes of your orator have always kept and preserved the said processes, methods, formulas, recipes, principal ingredients and manner of preparation, compounding and putting up said medicines, remedies and cures secret and undisclosed, and have not divulged or disclosed the same to the public or other persons, and the said methods, processes, recipes, formulas, principal ingredients and manner of manufacturing, compounding and preparing said remedies, medicines and cures have always been and are now trade and business secrets unknown to and undiscovered by the public, or to any person except the said Dr. Franklin Miles and the officers and employes of your orator, to whom the same have been divulged and disclosed in confidence and trust as trade and business secrets and with the express understanding and agreement that the same are not to be disclosed, divulged or communicated to or used or employed, by any person or other employe other than the officers and employes of your orator for the use and benefit of your orator. The said remedies, medicines and cures so invented, discovered, compounded and prepared and so preserved as trade and business secrets are each and all meritorious, useful and valuable, and are now and always have at all times during the manufacture, sale, marketing and use thereof been and continued to be secret and unknown articles and medicines whose principal ingredients and formulas, and the processes, methods and recipes for manufacture and compounding are known only to said Dr. Franklin Miles and the officers and employes of your orator, and to no other person."

The consignment or agency contracts entered into

between petitioner and each wholesale dealer are as follows (Rec., 8):

"Consignment Contract. Wholesale. The Dr. Miles Medical Company.

This agreement made by and between The Dr. Miles Medical Company, a corporation, of Elkhart, Indiana, hereafter referred to as the Proprietor, and ....., hereinafter referred to as the Consignee, Witnesseth:

That the said Proprietor hereby appoints said Consignee one of its Wholesale Distributing Agents, and agrees to consign to such Consignee for sale for the account of said Proprietor such goods of its manufacture as the Proprietor may deem necessary, the title thereto and property therein to be and remain in the Proprietor absolutely until sold under and in accordance with the provisions hereof, and all unsold goods to be immediately returned to said Proprietor on demand and the cancellation of this agreement. Said goods to be invoiced to consignee at the following prices:

Medicines of which the retail price is $1.00; $8.00 per dozen.

Medicines (if any) of which the retail price is 50 cents; $4.00 per dozen.

Medicines, of which the retail price is 25 cents; $2.00 per dozen.

Freight on all orders, the invoice price of which amounts to $100.00 or more, to be prepaid by the Proprietor; otherwise, freight to be paid by Consignee.

Said Consignee agrees to confine the sale of all goods and products of the said Proprietor strictly to and to sell only to the designated Retail Agents of said Proprietor as specified in lists of such Retail Agents furnished by said Proprietor and alterable at the will of said Proprietor, and to faithfully and promptly account and pay to the Proprietor the proceeds of all sales, after deducting as full compensation for

all services, charges and disbursements a commission of ten per cent. of the invoice value, and a further commission of five per cent. on the net amount of each consignment, after deducting the said ten per cent. commission, on all advances on account remitted within ten days from date of any consignment, it being agreed between the parties hereto that such advances shall in no manner affect the title to such goods, which title shall remain in the Proprietor as if no such advances had been made, provided that such advances shall be repaid to said Consignee should the said Proprietor terminate this agreement and the return of any unsold goods on which advances have been made. Said Consignee guarantees the payment for all goods sold under this agreement and agrees to render a full account and remit the net proceeds on the first day of each month of and for the sales of the month preceding. Failure to make such accounting and remittance within ten days from the first of each month shall render the whole account payable and subject to draft, but the proceeds of such draft shall not affect the title of any unsold goods, which shall remain in the Proprietor until actually sold, as herein provided.

It is further agreed that the Consignee shall furnish the Proprietor from time to time upon demand full statements of the stock of goods of the Proprietor on hand on any date specified and that a failure to furnish such statements within ten days from date of such demand shall be a sufficient cause for the cancellation of this agreement, and a demand for the return of the consigned goods.

It is further agreed that the Proprietor will cause each retail package of its goods to be identified by a number and said Consignee hereby agrees to furnish the said Proprietor full reports upon proper cards or blanks furnished

by said Proprietor of the disposition of each dozen or fraction of such goods by means of the identifying numbers, specifying the names and addresses of the Retail Agents to whom such goods have been delivered and the dates of such delivery, and to send such reports to said Proprietor at least semi-monthly, and at any other time on the request of said Proprietor.

It is understood and agreed between the parties hereto that the commissions herein specified shall not be considered as earned by said Consignee upon any goods of said Proprietor which shall have been delivered to dealers not authorized agents of said Proprietor, as per list of such agents, or upon any goods whose disposition by said Consignee shall not have been properly reported as herein provided, or sold at prices less than the prices authorized, and that said Consignee shall not credit any such commissions when making remittances on consignment account provided notice has been given by said Proprietor that such commissions are unearned; and that if such unearned commissions have been deducted by said Consignee in making advance payments or monthly remittances on account they shall be charged back to said Consignee and credited and paid to said Proprietor. It is understood that violation or non-observance of any provision hereof by the Consignee shall make this agreement terminable and all unsold goods returnable at the option of the Proprietor.

It is agreed that the goods of said Proprietor shall be sold by said Consignee only to the said Retail or Wholesale Agents of said Proprietor, as per list furnished, at not less than the following prices, to-wit:

Medicines, of which the retail price is $1.00; $8.00 per dozen.

Medicines (if any) of which the retail price is 50 cents; $4.00 per dozen.

Medicines, of which the retail price is 25 cents; $2.00 per dozen.

Provided, that said Consignee may allow a cash discount not exceeding one per cent., if paid within ten days from date of invoice, and that when sales at one time and at one invoice, amount to $15.00 or more, the said Consignee may allow three per cent. trade discount, and if said purchase amounts to $50.00 or more, five per cent. trade discount, all without cost to the Proprietor, and if such $50.00 quantity shall be shipped direct to the retail purchaser from the laboratory of said Proprietor, on the order from said Wholesale Distributing Agent, freight will be prepaid by the Proprietor, but not otherwise.

This contract will take effect when the original, duly signed by the Consignee, has been received and accepted by The Dr. Miles Medical Company, at Elkhart, Indiana.

Done under our hands ..... A. D. 1907.

Fill in date on above line.

THE DR. MILES MEDICAL COMPANY,

.....

Wholesale dealer. Sign your name on above line. Original. Return in Enclosed Envelope."

The contracts made between the petitioner and each retailer and which control each purchase of petitioner's remedies from petitioner through the wholesale agents are of the following tenor (Rec., 10):

"Retail Agency Contract.

The Dr. Miles Medical Company.

This agreement between The Dr. Miles Medical Company of Elkhart, Indiana, and ..... of .....,
Retailers Name on above line. Town.
..... hereinafter referred to as
State.
the Retail Agent, witnesseth:

Appointed Agent.

The said Dr. Miles Medical Company hereby appoints said Retail Dealer as one of the retail distributing agents of its Proprietary Medicines and agrees that said Retail Agent may purchase the Proprietary Medicines manufactured by said Dr. Miles Medical Company (each retail package of which the said Company will cause to be identified by a number) at the following prices, to-wit:

Wholesale Prices.

Medicines, of which the retail price is $1.00; $8.00 per dozen.

Medicines, of which the retail price is 50 cents; $4.00 per dozen.

Medicines, of which the retail price is 25 cents; $2.00 per dozen.

Quantity Discounts.

Provided that when purchases at one time and on one invoice amount to $15.00 (or more), Wholesale Distributing Agents are authorized to allow 3 per cent. trade discount; if such purchase amounts to $50.00 (or more) 5 per cent. trade discount will be allowed, and if such $50.00 quantity be shipped direct to the purchaser from the laboratory of said Dr. Miles Medical Company for the account of such Wholesale Agent, freight will be prepaid, but not otherwise.

Full Price.

In consideration whereof said Retail Agent agrees in no case to sell or furnish the said

Proprietary Medicines to any person, firm or corporation whatsoever, at less than the full retail price as printed on the packages, without reduction for quantity; and said Retail Agent further agrees not to sell the said Proprietary Medicines at any price to Wholesale or Retail dealers not accredited agents of the Dr. Miles Medical Company.

Violation.

It is further agreed between the parties hereto that the giving of any article of value, or the making of any concession by means of trading stamps, cash register coupons, or otherwise, for the purpose of reducing the price above agreed upon shall be considered a violation of this agreement, and further it is agreed between the parties hereto that the Dr. Miles Medical Company will sustain damage in the sum of twenty-five dollars ($25.00) for each violation of any provision of this agreement, it being otherwise impossible to fix the measure of damage.

This contract will take effect when a duplicate thereof, duly signed by the Retail Agent, has been received and approved by The Dr. Miles Medical Company, at its office at Elkhart, Indiana.

Done under our hands .....
A. D. 1907. Fill in date on above line.

THE DR. MILES MEDICAL COMPANY.

.....

Retail Dealer, Sign your name on above line in Ink.

To Retail Dealer:

Paste printed label, giving name and address, that your name may be correctly listed.

Duplicate. Keep for Reference."

The situation will also be more fully appreciated if the facts relative to the inauguration and methods of petitioner's business be kept clearly in mind and it be recalled that each remedy is identified by a

distinctive trade-mark, trade-name and package; has been extensively advertised; has a reputation and established market; has always been marketed at the same fixed price; has always had the same fixed retail price marked on the label; has always been sold to the consumer at retail stores and the purchaser sent to the retail store by petitioner's advertising; that each remedy has the directions for taking printed on the carton and label; that each package bears an identifying serial number and a guaranty under the Food and Drugs Act; that respondent obtains petitioner's medicines by misrepresentation, fraud, persuasion and collusive inducement to break contracts of petitioner's agents; that respondent then mutilates labels and obliterates the identifying names and marks and destroys the directions and sells and enables others to sell at cut rates not for direct profits, but for advertising purposes; that petitioner's plan is uniform and nondiscriminative and was adopted to protect its business and good will otherwise in process of ruin and has resulted in increased profits and sales.

IV.

BRIEF AND ARGUMENT ON LEGALITY OF CONTRACT SYSTEM OF PETITIONER.

(a) *The wholesale contracts are agency contracts and not contracts of sale.*

Under each contract between petitioner and wholesale dealers the remedies are in terms and in fact consigned to such wholesaler as a distributing agent.

Title remains in petitioner until sale in the authorized manner. A guaranty by appellant accompanies each package. The sales are for account of petitioner. Either selling price or the articles are to be turned over to petitioner. The wholesaler may sell only to accredited retailers. Proceeds, less designated commissions, must be paid to petitioner. The wholesaler is under no obligation to pay except on sale. Regular commissions are fixed. Prices to retailers are designated. Advances are not to affect the title. Unsold goods are to be returned to petitioner. The wholesaler guarantees all accounts. Petitioner guarantees under the Food and Drug Act. Net proceeds are to be remitted on the first of each month. Statements of stock on hand are to be furnished. The sale of each article, name and address of each buyer must be promptly reported. The wholesaler is designated as, and is actually made, an agent. Hence each sale to a retailer is a sale by petitioner through its agent.

Milburn Co. v. *Peak,* 89 Tex., 209, 34 S. W., 102.

Willcox & Gibbs Co. v. *Ewing,* 141 U. S., 627.

York Manf. Co. v. *Cassell,* 201 U. S., 344.

Metropolitan Bank v. *Benedict Co.,* 74 Fed., 182.

Atlas Glass Co. v. *Ball Bros. Glass Co.,* 87 Fed., 418.

In re Galt, 120 Fed., 64.

In re Flanders, 134 Fed., 560.

Briggs v. *Foster,* 137 Fed., 773.

In re Fabian, 151 F. R., 949.

In re McGehee, 166 F. R., 928.
Franklin v. *Stoughton Wagon Co.,* 168 F. R., 857.
Corbitt Buggy Co. v. *Ricaud,* 169 F. R., 935.
Walter A. Wood M. & R. Co. v. *Vanstory,* 171 F. R., 375.
Butler Bros. Co. v. *U. S. Rubber Co.,* 156 Fed., 1.
McCullough v. *Porter,* 4 W. & S. (Pa.), 177.
Keystone Watch Case Co. v. *Fourth St. Nat. Bank,* 194 Pa. St., 535; 45 At. Rep., 328.
Cannon Coal Co. v. *Taggart,* 1 Colo. App., 60; 27 Pac., 238.
First National Bank of Elgin v. *Schween, Exr.,* 127 Ill., 573.
Hunter v. *Gordon,* 33 Ill. App., 464.
Lenz v. *Harrison,* 148 Ill., 598; 36 N. E., 567.
Bayliss v. *Davis,* 47 Iowa, 340.
Norton v. *Melick,* 97 Iowa, 564; 66 N. W., 780.
Eldridge v. *Benson,* 61 Mass., 483.
Hatch v. *McBrien,* 83 Mich., 159; 47 N. W., 214.
Olney v. *Van Housen,* 3 Thomp. & C., 313.
Elwell v. *Coon* (N. J.), 46 At., 580.
Lambeth Rope Co. v. *Brigham,* 170 Mass., 518; 49 N. E., 1022.
Monitor Mnfg. Co. v. *Jones,* 96 Wis., 619; 72 N. W., 44.
Reaper Co. v. *Raynor,* 38 Wis., 119.
Burton v. *Goodspeed,* 69 Ill., 237.
Walker v. *Butterick,* 105 Mass., 237.

National Cordage Co. v. *Sims,* 44 Neb., 148; 62 N. W., 514.

Sturm v. *Boker,* 150 U. S., 312.

Balderston v. *National Rubber Co.,* 18 R. I., 338; 27 At. R., 507.

Barnes Safe & Lock Co. v. *Bloch Bros. Tobacco Co.,* 38 W. Va., 158; 18 S. E., 482.

National Bank v. *Goodyear,* 90 Ga., 711; 16 S. E., 962.

Moline Plow Co. v. *Rodgers,* 53 Kan., 743; 37 Pac., 111.

Fleet v. *Hertz,* 201 Ill., 594.

In re Columbus Buggy Co., 143 Fed. Rep., 859.

In re Smith & Nixon Piano Co., 149 Fed. Rep., 111.

In *Sturm* v. *Boker,* 150 U. S., 312, the contract provided that the articles were consigned and were to be sold to best advantage, profits to be divided, the shipment to be free of expense to the consignor and unsold goods to be returned free of charge. This was held a bailment. It was said (p. 329):

> "The contract in its terms and conditions meets all the requirements of a bailment. The recognized distinction between bailment and sale is that when the identical article is to be returned in the same or in some altered form, the contract is one of bailment, and the title to the property is not changed. On the other hand, when there is no obligation to return the specific article, and the receiver is at liberty to return another thing of value, he becomes a debtor to make the return, and the title to the property is changed; the transaction is a sale. This distinction or test of a bailment is recognized by

this court in the case of *Powder Co.* v. *Burkhardt*, 97 U. S., 110, 116.

The agency to sell and return the proceeds, or the specific goods if not sold, stands precisely upon the same footing, and does not involve a change of title. An essential incident to trust property is that the trustee or bailee can never make use of it for his own benefit. Nor can it be subjected by his creditors to the payment of his debts.

Testing the present case by these established principles, it admits of no question that the contract was one of bailment, and that the title to the goods, with the corresponding risk attached to ownership, remained with the defendants. Suppose a creditor of Sturm had levied upon or seized these goods after they reached his possession; it cannot be doubted that the defendants could have recovered them as their property.

That the contract between the parties in reference to the goods in question was a bailment upon the terms stated in the letters, is clearly established by the authorities. Among others, see *Hunt* v. *Wyman*, 100 Mass., 198; *Walker* v. *Butterick*, 105 Mass., 237; *Middleton* v. *Stone*, 111 Penn. St., 589."

In *Willcox & Gibbs Co.* v. *Ewing*, 141 U. S., 627, Ewing was appointed exclusive agent for the sale of sewing machines and parts in a certain territory to be supplied at and sold for certain prices. The arrangement was held an agency and it was ruled (p. 636):

"There was some discussion at the bar as to whether Ewing was, strictly, an agent of the company. We think he was. He was none the less an agent because of his appointment as 'exclusive vendor' of the defendant's machines with a particular territory, or because of the

peculiar privileges granted to or the peculiar restrictions imposed upon him. One clause of the contract prohibits him from soliciting trade, directly or indirectly, in the territory of 'other agents;' another, that he will bind 'all subvendors or agents' to sustain the established retail prices of the company; and still another imposes restrictions upon the sale of his 'appointment or agency.' The agreement constituted him the sole agent of the company for the sale of its machines within a certain territory. It is true that the machines he undertook to sell were to be purchased by him from the company at a large discount. But he could not sell them by retail below the regular retail prices. This arrangement was the mode adopted to protect the company's interests, and to secure the plaintiff such compensation for his services as would induce him to devote his time, attention and abilities to the company's interests. He was still a mere agent to sell such machines as might be delivered to him under the contract.'"

In re Columbus Buggy Co., 143 F. R., 859, it was said (p. 860):

"An agreed price, a vendor, a vendee, an agreement of the former to sell for the agreed price and an agreement of the latter to buy for and to pay the agreed price are essential elements of a contract of sale. The contract involved in this case has none of these characteristics. The power to require the restoration of the subject of the agreement is an indelible incident of a contract of bailment. *South Australian Ins. Co.* v. *Randell*, L. R., 3 P. C., 101, 108; 2 Kent's Com. *589; *Powder Co.* v. *Burkhardt*, 97 U. S., 116, 24 L. Ed., 973; *Sturm* v. *Boker*, 150 U. S., 312, 14 Sup. Ct., 99, 37 L. Ed., 1093. This contract contains a plain stipulation that the goods are at all times subject to the order of the Columbus company until they are

sold and that at the expiration of the terms of the contract the Washburn company will return the goods which remain unsold. It was therefore a contract of bailment for sale and it was not subject to the statute of Oklahoma regarding conditional sales. One of the most striking and familiar illustrations of its character is given by Chief Justice Gibson in *McCullough* v. *Porter*, 4 Watts & S. (Pa.), 177, 39 Am. Dec., 68, where he says:

'Were I to put my horse in the custody of a friend, to be sold for a designated sum, with permission to retain whatever could be got beyond it, it would not be suspected that I had ceased to own him in the meantime, or that my friend would not be bound to return him, even without a stipulation, should he have failed to obtain the prescribed price.'

A contract between a furnisher of goods and the receiver that the latter may sell them at such prices as he chooses, that he will account and pay for the goods sold at agreed prices, that he will bear the expense of insurance, freight, storage and handling and that he will hold the unsold merchandise subject to the order of the furnisher discloses a bailment for sale and does not evidence a conditional sale. It contains no agreement of the receiver to pay any agreed price for the goods. It is not, therefore, affected by a statute which renders unrecorded contracts for conditional sales voidable by creditors and purchasers. The fact that such a contract provides that the receiver of the goods may fix the selling prices and may retain the difference between the agreed prices of the accounting and the selling prices to recompense him for insurance, storage, commission and expenses does not constitute the contract an agreement of sale. It still lacks the obligation of the receiver to pay a purchase price for the goods and the obligation of the furnisher to

transfer the title to him for that price. *Sturm* v. *Boker*, 150 U. S., 312; 14 Sup. Ct., 99; 37 L. Ed., 1093; *John Deere Plow Co.* v. *McDavid* (C. C. A.), 137 Fed., 802; *Metropolitan Nat. Bank* v. *Benedict Co.*, 20 C. C. A., 377, 380, 74 Fed., 182, 185; *In re Galt*, 56 C. C. A., 470, 473, 120 Fed., 64, 67; *Union Stock Yards, etc., Co.* v. *Western Land, etc., Co.*, 7 C. C. A., 660, 664, 59 Fed., 49, 53; *Keystone Watch-Case Co.* v. *Fourth National Bank*, 194 Pa., 535, 45 Atl., 328; *In re Flanders*, 67 C. C. A., 484, 134 Fed., 560; *Martin* v. *Stratton-White Co.*, 1 Ind. T., 394, 37 S. W., 833; *National Bank* v. *Goodyear*, 90 Ga., 711, 726, 16 S. E., 962; *Barnes Safe & Lock Co.* v. *Bloch Bros. Tobacco Co.*, 38 W. Va., 158, 164, 18 S. E., 482, 22 L. R. A., 850, 45 Am. St. Rep., 846; *National Cordage Co.* v. *Sims*, 44 Neb., 148, 153, 62 N. W., 514; *Rosenewanz & Weber Co.* v. *Hanchett*, 30 Ill. App., 283, 286; *Harris* v. *Coe*, 71 Conn., 157, 41 Atl., 352, 354; *W. O. Dean Co.* v. *Lombard*, 61 Ill. App., 94, 97; *Norton & Co.* v. *Mellick*, 97 Iowa, 362, 366, 66 N. W., 780; *Lenz* v. *Harrison*, 148 Ill., 398, 36 N. E., 567, 569."

In re Galt, 120 Fed. Rep., 64, states the rule as follows (p. 68):

"Carefully analyzing the agreement in hand, we think it must be held that the contract of the parties was one of bailment and not of conditional sale. The Mitchell & Lewis Company thereby appoints Galt its agent for the sale of its manufacture in the limited territory stated, and in no other place or places; agrees to furnish the goods to the agent at 40 per cent. discount from list prices; they to be sold by him, and accounted for to the company in cash or notes of the purchaser drawn upon blanks furnished by the company, running not more than six months, with interest, and made payable to the company; their payment being guaranteed

by Galt. As an inducement to making sales for cash only, an allowance of 5 per cent. on such sales is allowed by the company. All cash is to be remitted not later than the day following the sale; notes to be transmitted every 30 days. If all sales should be upon time, and the notes returned to the company should aggregate more than the prices of the wagons to be accounted for, the surplus is to be returned to Galt when and in proportion to the amount collected. He agrees to sell all wagons within twelve months from date of shipment, and upon failure so to do, at the option of the company, to (1) pay cash for wagons on hand, at the prices stated; or (2) give his note therefor; or (3) store the wagons subject to the order of the company; the ownership of all wagons furnished to remain in the company until settlement as provided; the money and effects received by Galt in the business of the agency in no case to be appropriated to his private use. Galt agrees to store and keep under cover and in good condition all wagons received; to keep them fully insured at his own expense until sold or ordered away by the company; to pay taxes upon them, if any should be assessed; and he is not to sell or assist in the sale of any other wagons than those manufactured by the company.

Applying to this contract the test stated, it is clear that here was a bailment, and not a conditional sale. It was not contemplated that Galt should ever own these wagons. He was to sell them to others for the company; his commissions to be the amount which he might receive over the prices stated in the contract. The proceeds, whether in cash or in notes of the purchaser, were to be immediately returned to the company; the notes being guaranteed by Galt. This was a *del credere* commission, and not a sale. The company could compel a re-

turn of the goods not sold. Galt had not the option to pay for them in money. Even with respect to the goods unsold within the 12 months, the option for their return or payment was with the company, and not with Galt; and nowhere in the agreement does the latter covenant to pay for these goods as in the case of a sale.

It is claimed that the agreement is a conditional sale, within the doctrine of *Chickering v. Bastress*, 130 Ill., 207, 22 N. E., 542, 17 Am. St. Rep., 309, and *Manufacturing Co. v. Lyons*, 153 Ill., 427, 38 N. E., 661. But in each of those cases the party receiving the goods gave to the other his notes, evidencing a contract to pay absolutely; the proceeds of the sales to be applied upon the notes. The case is like to that of *Lenz v. Harrison*, 148 Ill., 598, 36 N. E., 567, where an agreement similar to the one in hand was held to be a bailment, and not a sale. The clause in the contract giving an option to the company to require Galt to give his note, or to pay in cash, or to store, subject to the order of the company, the goods not sold within 12 months, is probably the strongest clause in the contract to indicate a sale; but, as suggested by the Supreme Court of Illinois in *Lenz v. Harrison, supra*, while it might have such force considered alone, taking it with the whole contract, it was seemingly incorporated to compel the agent promptly to sell, and report sales within the time stated. The cases in Illinois are carefully distinguished in *Manufacturing Co. v. Lyons, supra*, and fully sustain our holding that the contract in question constitutes a bailment, and not a sale. Such construction accords with the decisions elsewhere upon like contracts. *Williams Mower & Reaper Co. v. Raynor*, 38 Wis., 119; *State v. Leicham*, 41 Wis., 565, 578; *Manufacturing Co. v. Jones*, 96 Wis., 619, 624, 72 N. W., 44; *Walker v. Butterick*, 105 Mass., 237."

Tested by these rules and keeping in mind that the question here arises in the same way between petitioner and respondent as it would between petitioner and the wholesale dealers, the arrangement between petitioner and each wholesaler is clearly one of bailment and not of sale or conditional sale.

Therefore, petitioner is in the situation legally of dealing directly with each retail druggist and title passes from petitioner directly and without any mediation to each retail purchaser. This constitutes practically the difference between the system or plan of petitioner and the methods considered in the cases of *Hartman* v. *John D. Park & Sons Co.*, 145 Fed., 358, 153 Fed., 24, *Wells & Richardson Co.* v. *Abraham*, 146 Fed., 190; *Dr. Miles Medical Co.* v. *Jayne Drug Co.*, 149 Fed., 838, and others wherein there was a sale to the jobber and resale by the jobber to the retailer. It is insisted that both sets of contracts are valid and sustainable, but in some decisions a distinction is suggested and the consignment plan thought preferable.

(b) *Petitioner may lawfully through wholesale agents impose terms and conditions upon retail buyers as to price and sale.*

The contracts between petitioner and its wholesale distributors being contracts of consignment and the articles being at all times while in the possession of the jobber the property of the consignor, the conditions as to prices at which, and persons to whom the products shall be sold are lawful, because any trader may determine for himself the persons to whom he shall sell and the prices he shall charge for

his goods and what conditions as to use and sale the buyer shall observe. The wholesale distributor having possession of petitioner's goods, but no title to them, is an agent or factor merely and must obey the instructions of his principal as expressed in the contract of consignment, and there can be no question that the contracts are valid both individually and in the aggregate as a system. *Wilcox & Gekks Co.* v. *Ewing,* 141 U. S., 627. A consignor, with respect to the sale of his goods, may lawfully impose upon a factor any conditions he may choose.

That there is no restraint of trade in agency contracts, whatever restrictions may be imposed upon the agent, is the unquestionable conclusion from the following cases:

(1) The principal controls the agent.

Rice v. *Brook,* 20 F. R., 611, 613.

Weed v. *Adams,* 37 Conn., 378, 380.

Barksdale v. *Brown,* 1 Nott & McCord, 517, 519.

Scott v. *Rogers,* N. Y. Ct. App., Dec. 4 Abb., 157, 159.

Feild v. *Farrington,* 10 Wall., 141, 149.

Brown v. *McGran,* 14 Pet., 479.

Cotton v. *Hiller,* 52 Miss., 7, 13.

Union Hardware Co. v. *Plume & Atwood Co.,* 58 Conn., 219, 20 Atl., 455.

Welsh v. *Phelps & Bigelow Wind Mill Co.,* 89 Tex., 653; 36 S. W., 71.

Weiboldt v. *Standard Fashion Co.,* 80 Ill. App., 67.

W. A. Wood Co. v. *Greenwood Hardware Co.,* 75 S. C., 378; 55 S. E., 973.

Keith v. *Hirschberg Optical* Co., 48 Ark., 138; 2 S. W., 777.

Roller v. *Ott*, 14 Kan., 609.

Newell v. *Meyendorff*, 9 Mont., 254; 23 Pac., 333.

Payne v. *Railway Co.*, 81 Tenn., 507.

Whitwell v. *Tobacco Co.*, 125 F. R., 454, 461.

Arkansas Brokerage Co. v. *Dunn & Powell Co.*, 173 F. R., 899.

Robison v. *Texas Pine Land Assn.* (Tex. Civ. App.), 40 S. W., 843.

Hunt v. *Simonds*, 19 Mo., 583, 586.

Butterick Co. v. *Rose*, 141 Wis., 533, 124 N. W., 647.

Butterick Co. v. *Fisher*, 203 Mass., 122, 89 N. E., 189.

A few brief quotations from these decisions will demonstrate their application and establish the rule asserted.

Judge Dyer observed in *Rice* v. *Brook*, 20 Fed., 611, 613:

> "Where a consignment is made to a factor for sale, the consignor has a right, generally, to control the sale thereof according to his own pleasure, from time to time, if no advances have been made or liabilities incurred on account of the consignment, and the factor is bound to obey his orders."

Weed v. *Adams*, 37 Conn., 378, 380, Carpenter, J.

> "A factor, who has made no advances, and incurred no liability on account of goods con-

signed, is bound to obey the orders of his principal in respect to the time and manner of selling. This is familiar and conceded law."

In *Barksdale* v. *Brown,* 1 Nott & McCord, 517, Mr. Justice Nott said (519):

"The instructions of a principal to his agent, make the law by which he is to be governed. And to authorize him to depart from them would be depriving the parties of the privilege of making their own terms."

In *Scott* v. *Rogers,* N. Y. Court of App., Dec. 4 Abb., 157, the court said (159):

"The owner of property entrusted to a factor for sale has, where the latter has no lien for advances, an absolute right to prescribe the terms of sale and the time at which it shall be made, and a proximate compliance with instructions, though done in good faith, is not an answer to an action for damages on account of their violation."

Field v. *Farrington,* 10 Wall., 141, 149.
Brown v. *McGran,* 14 Pet., 479.

In *Cotton* v. *Hiller,* 52 Miss., 7, Simrall, C. J., said (p. 13):

"The owner of the property has undoubtedly the right to impose terms on his commission merchant as to the time of sale or the price, or both."

Union Hardware Co. v. *Plume & A. Manuf'g Co.,* 58 Conn., 219; 20 Atl., 455.

Here plaintiff was a manufacturer of skates and entered into an agreement whereby defendant became the selling agent of plaintiff in Boston. By the provisions of the agreement defendant undertook

to handle plaintiff's goods, and the plaintiff agreed to consign its goods to defendant to be sold. The goods were to remain the plaintiff's property until sold. Plaintiff fixed the selling prices. All sales were to be accounted for upon receipt of payment, and defendant was to secure a commission. Judge Prentice said:

> "The parties acted under this agreement for several years, and annually settled their accounts to their mutual satisfaction, the plaintiff often allowing rebates from the consigned or established price. In the fall of 1885, the plaintiff, acting under this agreement, sent to the defendant a consignment of skates for sale at certain fixed prices, appearing in its list. Sharp business competition during the winter induced the defendant against express directions of the plaintiff, to cut prices, and sell the skates at a considerable reduction from the established price. The amount received upon these sales had been accounted for by the defendant. The complainant sets up these facts, and seeks to recover the balance due for the goods so sold." It was held that plaintiff could recover.

(2) Agreements between principal and agent are not in restraint of trade whatever conditions may be imposed.

Neither the common law doctrine of restraint of trade, nor the statutory enactment on the subject has any application to contracts or transactions between principal and agent.

In *Welch* v. *Phelps & Bigelow Windmill Co.*, 89 Tex., 653; 36 S. W., 71, a contract by which a manufacturer of windmills granted exclusive territory for their sale to a firm in Texas, the windmills, after shipment, to remain the property of the manufacturer

until sold, then to be paid for at a fixed price, fixing prices of sale and binding consignee to handle no other kind of windmills, was held to be a contract of agency, and not in violation of Texas Anti-Trust Act.

Denman, J., said (72):

> "It was not the purpose of the statute, however, to interpose any obstacle to a principal's contracting with his agent with reference either to the terms or the subject-matter of the agency. In the case before us it was entirely within the discretion of the principal, before as well as after the contract was signed, as to how many of its windmills it would send into the named territory, as well as to decline to sell for less than the net price, or permit its agent to sell for others. It controlled them all, and therefore there was no union or association of otherwise independent, separate and possibly competing 'capital, skill, or acts,' and hence no combination. We therefore answer the question certified in the negative. If the title to the windmills had passed by the contract and shipment, thus establishing the relation of vendor and vendee, instead of principal and agent, between the parties thereto, a different result might have been reached, as intimated in reference to the contract between plaintiff and defendant in *Houck* v. *Association*, 88 Tex., 190; 27 S. W., 696."

Weiboldt v. *Standard Fashion Co.*, 80 Ill. App., 67. The Standard Fashion Company granted to Weiboldt the exclusive agency for the sale of its patterns for a certain district in the City of Chicago. It was agreed that patterns should be purchased at certain prices. Weiboldt agreed

> "Not to sell nor deal in, directly nor indirectly, other patterns than those manufactured

by said first party, nor allow such patterns to be sold or dealt in upon his premises. Not to purchase or receive 'Standard' patterns, except from said first party, direct, or the general agency of said first party, at Chicago; nor to sell patterns at prices other than those printed upon the labels."

Sears, J. (70):

"The fourth contention, viz.: that the contract is in restraint of trade, because by its terms appellant agreed to sell no other patterns than those of appellee, and not to sell their patterns except at a price fixed, is not tenable as applied to a contract whereby an agency is created to sell specific articles made by appellee, like the patterns here.

The same reasoning applies equally to the application of the statute relating to trusts and combinations. By its terms, the limitations put upon an agent in the sale of his principal's (the manufactured's goods) are not affected."

Walter A. Wood Co. v. *Greenwood Hardware Co.*, 75 S. C., 376; 55 S. E., 973. In this case plaintiff sued to recover the price of merchandise and the defense interposed was violation of South Carolina Anti-Trust Law. The contract bound plaintiff to permit defendant to handle its goods exclusively in Greenwood and vicinity, and to use reasonable efforts to prevent other agents from making sales there. Defendant was bound to handle plaintiff's goods exclusively of the kind plaintiff manufactured. Held a valid contract. Jones, J., saying:

"The rule is that contracts containing stipulations like those alleged to be illegal in this case, but which merely create an agency to sell on com-

mission, are not in violation of law or anti-trust statutes."

Butterick Co. v. *Fisher*, 203 Mass., 122; 89 N. E., 189.

Defendant agreed to act as the special agent of plaintiff for sale of plaintiff's patterns in a certain city and not during the agency to sell any other patterns. Defendant violated the contract and an injunction was sought and obtained. It was said (190):

"We are of opinion that the contract sued on is not within Rev. Laws, c. 56, sec. 1. It was held by this court in *Com.* v. *Strauss*, 188 Mass., 229, 74 N. E., 308, that the statute being a highly penal one is to be construed strictly, and that so construed it does not prohibit a sale at a reduced rate in consideration of an agreement to sell the vendor's goods alone. It is not necessary, therefore, to consider whether the defendant was the plaintiff's agent as matter of law and so within the exceptions stated at the end of the section."

(c) *The right to refuse sales exists in every manufacturer.*

Any manufacturer or dealer may sell or refuse to sell at pleasure, and may fix prices, terms and conditions arbitrarily, either personally, or through an agent when a sale is made.

These provisions of the wholesale contract of petitioner forbidding sales except to accredited retail dealers and except at fixed prices are no more in restraint of trade than the refusal of any trader to deal with any one except on his own terms would be, or the refusal to sell except at his own price or to deal with persons who, for any reason or for no

reason, may be objectionable. These are things absolutely within the right of every one, and of which no one can be deprived. As long as the arrangement concerns only the product of a single manufacturer conditions relating to its resale may be lawfully imposed.

Payne v. *Railway Co.*, 81 Tenn., 507.
Whitwell v. *Tobacco Co.*, 125 F. R., 454.
C., C., C. & St. L. Ry. Co. v. *Jenkins*, 174 Ill., 398
Live Stock Com. Co. v. *Live Stock Exchange*, 143 Ill., 210.
Robison v. *Texas Pine Land Assn.* (Tex. Civ. App.), 48 S. W., 843.
Tanenbaum v. *N. Y. Fire Ins. Exch.*, 68 N. Y. S., 342.
Collins v. *Am. News Co.*, 69 N. Y. S., 638.
Hunt v. *Simons*, 19 Mo., 583, 586.
Schulten v. *Bavarian Brewing Co.*, 96 Ky., 224; 28 S. W., 504, 505.
Baker v. *Ins. Co.* (Ky.), 64 S. W., 913; 64 S. W., 967.
McCune v. *Norwich Gas. Co.*, 30 Conn., 521, 524.
N. Y., Chicago & St. L. Ry. Co. v. *Schaffer*, 65 Oh. St., 414; 62 N. E., 1036; 62 L. R. A., 931.
Brewster v. *Miller*, 101 Ky., 368; 41 S. W., 301, 303.
Anderson v. *U. S.*, 171 U. S., 604.
Matthews v. *Associated Press*, 136 N. Y., 333; 32 N. E., 981.

Star Pub. Co. v. *Associated Press,* 159 Mo., 410; 60 S. W., 91; 51 L. R. A., 151.
People v. *Klaw,* 106 N. Y. S., 341, 347.
Union Pacific Coal Co. v. *United States,* 173 F. R., 737.
Payne v. *Railway Co.*. 81 Tenn., 507.

Judge Ingersol said (517):

"May I not refuse to trade with any one? May I not forbid my family to trade with any one? May I not dismiss my domestic servant for dealing, or even visiting, where I forbid? And if my domestic, why not my farm hand, or my mechanic, or teamster? And if one of them, then why not all four? And if all four, why not a hundred or a thousand of them? The principle is not changed or affected by the number.

* * * * *

Obviously the law can adopt and maintain no such standards for judging human conduct; and men must be left, without interference to buy and sell where they please, and to discharge or retain employes at will for good cause or for no cause, or even for bad cause without thereby being guilty of an unlawful act *per se.*"

In *Whitwell* v. *Tobacco Co.,* 125 Fed., 454, it was said by Judge Sanborn (461):

"The tobacco company and its employe were not required, like competitors engaged in public or quasi public service, to sell to all applicants who sought to buy, or to sell to all intending purchasers at the same prices. They had the right to select their customers, to sell and to refuse to sell to whomsoever they chose, and to fix different prices for sales of the same commodities to different persons."

In *C. C. C. & St. L. R. Co.* v. *Jenkins,* 174 Ill., 398, 404, it was said by Mr. Justice Phillips:

> "It is also a well known rule of law that no man is compelled to enter into business relations with any other person unless he desires so to do, and it is also as well established that upon the dissolution of such business relations no man shall be compelled to divulge to the public his reasons, good or bad, for such dissolution. In Cooley on Torts (p. 328) it is said: 'It is a part of every man's civil rights that he be left at liberty to refuse business relations with any person whomsoever, whether the refusal rests upon reason, or is the result of whim, caprice, prejudice or malice. With his reasons neither the public nor third persons have any legal concern.'"
>
> *Live Stock Com. Co.* v. *Live Stock Exch.,* 143 Ill., 210, 234.

Bailey, C. J. (234):

> "Absolute freedom of commercial intercourse to which a party may be entitled is not interfered with by the refusal of another to deal with such party on any terms."

In *Union Pacific Coal Co.* v. *United States,* 173 Fed. Rep., 737, it was said (739):

> "The gist of the offense charged in the indictment was not the refusal of the coal company and Moore to sell coal on the purchaser's terms, or of the railroad companies and Buckingham to transport it. It was the combination so to do, and if there was no combination there was no offense. There was no law which forbade the coal company to prescribe the terms on which it would sell its product to Sharp, or to any other purchaser. There was no law which required the coal company to sell its coal to

Sharp on the terms which he prescribed, or to sell it to him at all. It had the undoubted right to refuse to sell its coal at any price. It had the right to fix the prices and the terms on which it would sell it, to select its customers, to sell to some and to refuse to sell to others, to sell to some at one price and on one set of terms, and to sell to others at another price and on a different set of terms. There is nothing in the act of July 2, 1890, which deprived the coal company of any of these common rights of the owners and venders of merchandise, and if it did not combine with some other person or persons so to do its refusal to sell its coal to Sharp unless he would withdraw his advertisement of a reduction in his retail price of it was not the violation of the Sherman anti-trust act charged in the indictment. *Morris Run Coal Co.* v. *Barclay Coal Co.*, 68 Pa., 173, 186, 8 Am. Rep., 159; *Whitwell* v. *Continental Tobacco Co.*, 125 Fed., 454, 460, 461, 463, 60 C. C. A., 290, 296, 297, 299, 64 L. R. A., 689; 1 Eddy on Combinations, sec. 292; *Allgeyer* v. *Louisiana*, 165 U. S., 578, 589, 17 Sup. Ct., 427, 41 L. Ed., 832; *In re Greene* (C. C.), 52 Fed., 104, 115; *In re Grice* (C. C.), 79 Fed., 627, 644; *Walsh* v. *Dwight*, 40 App. Div., 513, 58 N. Y. Supp., 91, 93; *Brown* v. *Rounsavell*, 78 Ill., 589."

(d) *Petitioner's system is legal, and not in restraint of trade.*

Petitioner manufactures medicines under secret formulas which are its exclusive property. Not only are the processes and methods of manufacture secret, but the formulas, ingredients and proportions. This makes the *medicines themselves embodied trade secrets.* From the very nature of the articles no one other than petitioner has made or can make any one of its remedies. The articles

are just as much secrets as the processes. Trade marks and names and distinctive style of dress identify the origin. A valuable good will and trade therein exists. The consumer purchases not from the maker, but at retail stores, and has been directed by petitioner's advertising at petitioner's expense to retail stores. Prices have been established from the beginning. The good will exists not at petitioner's laboratory, but at the retail drug stores. To conserve this good will petitioner puts its medicines in the hands of wholesale agents, authorizes sales at fixed prices and only to accredited retailers. Such retailers are accredited only upon agreeing to sell at retail only and at regular prices. Upon these conditions and with these restrictions the remedies are sold to retailers with the accompanying license to utilize the good will and use or sell the secretly made and unproducible article. This system is a reasonable protection to petitioner's business and good will and not in restraint of trade. Many contracts which impose conditions and restrictions on the sale of merchandise in the hands of purchasers are held valid both at common law and under anti-trust statutes.

(1) Contracts giving the exclusive right to sell the product of a maker in a certain territory are valid.

Walter A. Wood Co. v. *Greenwood Hardware Co.*, 75 S. C., 378; 55 S. E., 973; 9 L. R. A. (N. S.), 501.

Keith v. *Hirshberg Optical Co.*, 48 Ark., 138, 2 S. W., 777.

Roller v. *Ott,* 14 Kan., 609.
Newell v. *Myendorf,* 9 Mont., 254; 23 Pac., 333.
Welch v. *Phelps & Bigelow Windmill Co.,* 89 Tex., 653; 36 S. W., 71.
Olmstead v. *Distilling Co.,* 77 Fed., 265.
In re Greene, 52 Fed., 104.
Ferris v. *American Brew. Co.,* 155 Ind., 539; 58 N. E., 701.
Woods v. *Hart,* 50 Neb., 497; 70 N. W., 53.
Ward v. *Hogan,* 11 Abb. N. S., 478.
Palmer v. *Stebbins,* 3 Pick., 188.
Anheuser-Busch Assn. v. *Houck* (Tex. Civ. App.), 27 S. W., 692.
Fuqua v. *Pabst Brew. Co.* (Tex. Civ. App.), 36 S. W., 479.
Houck v. *Wright,* 77 Miss., 476; 27 So., 616.
Vandeweghe v. *American Brew. Co.* (Tex. Civ. App.), 61 S. W., 526.
Gates v. *Hooper,* 90 Tex., 563; 39 S. W., 1079.
Norton v. *Thomas,* 99 Tex., 578; 91 S. W., 780.
Clark v. *Cyclone Woven Wire Fence Co.,* 22 Tex. Civ. App., 41; 54 S. W., 392.
Ewing v. *Wilcox & Gibbs Sewing Machine Co.,* 9 W. N. C. (Pa.), 272.
Standard Fashion Co. v. *Ostrom,* 16 N. Y. Sup. Ct. App. Div., 220.

(2) Contracts for exclusive dealing in articles are valid.

Dunlap's Cable News Co. v. *Stone,* 15 N. Y. S., 2.

Matthews v. *Associated Press,* 15 N. Y. S., 887; 136 N. Y., 333; 32 N. E., 981.

Whitwell v. *Continental Tob. Co.,* 125 Fed. Rep., 454.

Brown v. *Rounsavell,* 78 Ill., 589.

Clark v. *Crosby,* 37 Vt., 188.

Central Shade Roller Co. v. *Cushman,* 143 Mass., 353; 9 N. E., 629.

Blauner v. *Williams Co.,* 36 Miss., 173; 73 N. Y. S., 165.

Butterick Pub. Co. v. *Fisher,* 203 Mass., 122, 89 N. E., 189.

Forrest Photographic Co. v. *Hutchinson Grocery Co.* (Tex. Civ. App.), 108 S. W., 768.

(3) Contracts restricting the distribution or use of property are legal.

Phillips v. *Iola Cement Co.,* 125 Fed. Rep., 593.

Meyer v. *Estes,* 164 Mass., 457; 41 N. E., 683; 32 L. R. A., 283.

Crystal Ice Co. v. *San Antonio Brew. Assn.,* 8 Tex. Civ. App., 1; 27 S. W., 210.

Bancroft v. *Embossing Co.,* 72 N. H., 402; 57 Atl., 97; 64 L. R. A., 298.

Twomey v. *Peoples' Ice Co.,* 66 Cal., 233; 5 Pac., 158.

Schwalen v. *Holmes,* 49 Cal., 665.

Hodge v. *Sloan,* 107 N. Y., 244; 17 N. E., 335.

Kellogg v. *Larkin,* 3 Chandler (Wis.), 133.

Lanyon v. *Garden City Sand Co.,* 223 Ill., 616; 79 N. E., 313; 9 L. R. A., 446.

Leslie v. *Lorillard,* 110 N. Y., 519; 18 N. E., 363.

(4) Contracts for the entire output of a plant are valid.

Carter-Crume Co. v. *Peurrung,* 86 Fed., 439; 30 C. C. A., 174.

Heimbuecher v. *Goff Co.,* 119 Ill. App., 373.

Over v. *Foundry Co.,* 37 Ind. App., 452; 77 N. E., 302.

Van Marter v. *Babcock,* 23 Barb., 633.

Hadden v. *Dimmick,* 31 How. Pr., 196.

(5) Restrictions on prices are valid.

Clark v. *Frank,* 17 Mo. App., 602.

Commonwealth v. *Grinstead,* 111 Ky., 203; 63 S. W., 427.

Elliman v. *Carrington* (1901), 2 Ch., 275; 84 L. T. (N. S.), 858.

Walsh v. *Dwight,* 58 N. Y. S., 91.

Rakemann v. *Riverbank Imp. Co.,* 167 Mass., 1; 44 N. E., 990.

Weiboldt v. *Standard Fashion Co.,* 80 Ill., App., 67.

(e) *Trade secrets and articles embodying them are property monopolies and contracts relating thereto not within the restraint of trade rule.*

There are certain contracts to which neither the doctrine of restraint of trade, nor the provisions of anti-trust acts apply. Such contracts are (1) those dependent on the relations of the parties and (2) those dependent on the character of the subject-matter. As an example of the first, are contracts between principal and agent and of the second, contracts the subject matter of which is essentially monopolistic; that is contracts with reference to patented and copyrighted articles and articles made under trade secrets. With respect to such articles contracts permitting any dealings are a relaxation or relinquishment of right, and not a restraint, for the exclusive proprietor of the monopoly may at his option completely suppress all trade in the article on which the monopoly exists.

It must be kept in mind that petitioner's medicines were originated and discovered by it and are patentable because new and useful, and that the processes of manufacture, ingredients, proportions and the articles themselves when marketed are trade secrets and the remedies until the ingredients, methods and proportions are disclosed or discovered cannot be from the very nature of the situation made by others; that petitioner alone manufactures and can manufacture; that each article is trade-marked and put out in a peculiar and distinctive trade dress; that by merit due to discovery, skill and expenditures, a great reputation and demand for and good will in

connection therewith exist, not simply at petitioner's place of manufacturing, but at retail drug stores throughout the country, where the medicines are sold to the used. Dealers buy because of this good will and reputation. By reason of all these facts petitioner has the absolute domination, monopoly and control over its proprietary medicines and may make or not make, use or not use, sell or not sell, any or all of its medicines. Each sale is in reality the sale of an article either generally or under such restrictions as may be imposed. Unless and until petitioner has elected to make, use or market, with or without conditions or limitations no one else from the very nature of the situation can make, use or sell the medicines. The analogy to patented articles is complete.

There are certain fundamental rights and privileges which are the foundation of civilization and civilized existence. One of these is before disclosure absolute control and dominion by the individual over his physical and mental productions. The man who originates, makes or produces can retain the result of his physical or mental labor, or he can dispose of it. If he chooses to sell or reveal, he can do so upon his own terms, and it is not in any sense a restriction or restraint upon trade that the individual puts limitations and conditions upon the use or resale of the thing which he produces and disposes of. It is contended that this rule applies to all productions when the product of one only is concerned. It certainly obtains when the the article is newly discovered or invented. The constitution of the United States declares that no person shall be deprived of life, liberty or property with-

out due process at law. This is the fundamental law of the land. No legislation by Congress or a state can take away any one of these rights. The right to contract and to make contracts with such conditions and limitations as may seem desirable in reference to a man's own property is a property right secured by the constitution. No statute can interfere with this right, or take it away, so that, even if the federal statute should be construed as forbidding all contracts which contain any restraint, limitation or condition on property or services as invalid, the statute would be unconstitutional when applied to the inventions, physical or mental, of an individual and related only to his original productions. This absolute dominion over and monopoly in inventions, discoveries and writings is the foundation of the patent and copyright laws and has been declared in a long series of cases.

Press Publishing Co. v. *Monroe,* 73 F. R., 196.

Holmes v. *Hurst,* 174 U. S., 82.

Millar v. *Taylor,* 4 Burr., 2303.

Jeffreys v. *Boosey,* 4 H. L. C., 920.

Duke of Queensbury v. *Shebbare,* 2 Eden., 329.

Prince Albert v. *Strange,* 1 MacN. & G., 25; 18 L. J. Ch., 120.

Bartlette v. *Crittenden,* 4 McLean, 300; F. C., 1082.

Abernethy v. *Hutchinson,* 3 L. J., (O. S.), 209.

Donaldson v. *Beckett,* 2 Br. Par. Cas., 129.

Pope v. *Curl,* 2 Atk., 342.

Caird v. *Sime*, L. R., 12 App. C., 326.
Palmer v. *DeWitt*, 47 N. Y., 532.
Thompkins v. *Halleck*, 133 Mass., 32.

Petitioner through its employes originated and has conserved the secret of making its remedies in such a manner that both the method and the result are known only to itself. There is no legal power that can compel disclosure of the process or ingredients or properties of the remedies and as long as the exclusive power of making exists the monopoly in and absolute control over the remedies remains.

It is well settled that the method herein set out to control *the sale and prices of his own product by a manufacturer* is valid and lawful when the article is made and sold under letters patent or copyright.

(1) *Patent cases.*

Bement v. *National Harrow Co.*, 186 U. S., 70.
National Phonograph Co. Ltd. v. *Edison Bell Co.* (1907), L. R. 1, Ch. 335; 98 L. T. R., 291.
U. S. Consolidated Seeded Raisin Co. v. *Griffin and Skelley Co.*, 126 Fed., 364.
Heaton Peninsular Button Co. v. *Eureka Specialty Co.*, 77 Fed., 288.
Edison Phonograph Co. v. *Kaufmann*, 105 Fed., 960.
Edison Phonograph Co. v. *Pike*, 116 Fed., 863.
Cortelyou v. *Lowe*, 111 Fed., 1005.
Dickerson v. *Matheson*, 57 Fed., 524.
Bonsack Machine Co. v. *Smith*, 70 Fed., 383.

Bowling v. *Taylor,* 40 Fed., 404.
Dickerson v. *Tinling,* 84 Fed., 192.
Butterick Co. v. *Rose,* 141 Wis., 533; 124 N. W., 647.
Central Shade Roller Co. v. *Cushman,* 143 Mass., 353; 9 N. E., 629.
Gloucester Isinglass & Glue Co. v. *Russia Cement Co.,* 154 Mass., 92; 27 N. E., 1005.
Good v. *Tucker, etc., Cordage Co.,* 121 N. Y., 1; 24 N. E., 15.
Morse Twist Drill & Machine Co. v. *Morse,* 103 Mass., 73.
Cortelyou v. *Charles Eneu Johnson & Co.,* 138 Fed., 110.
Bancroft v. *Union Embossing Co.,* 72 N. H., 402; 57 Atl., 97.
Hulse v. *Bonsack Machine Co.,* 65 Fed., 864.
Victor Co. v. *The Fair,* 123 Fed., 424.
National Phonograph Co. v. *Schlegel,* 128 Fed., 733.
Whitson v. *Columbia Co.,* 18 App. D. C., 525.
Rubber Tire Wheel Co. v. *Milwaukee Rubber Works,* 142 Fed., 531; 154 Fed., 358.
Indiana Mnfg. Co. v. *Case Co.,* 154 Fed., 365.

In *Bement* v. *National Harrow Co.,* 186 U. S., 70, it is said (p. 91), after considering the decision and exceptions:

"Notwithstanding these exceptions, the general rule is absolute freedom in the use or sale of rights under the patent laws of the United States. The very object of these laws is monop-

> oly, and the rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal."

In *Rubber Tire Wheel Co.* v. *Milwaukee Rubber W. Co.*, 154 Fed. Rep., 358, this subject was carefully considered and it was said (p. 361):

> "The Wisconsin statute is eliminated not only because it is not involved in any assignment of error, but also because a state cannot subtract from the right conferred upon a patentee and his assigns by the federal laws. *Columbia Wire Co.* v. *Freeman Wire Co.* (C. C.), 71 Fed., 302; *U. S. Consolidated Seeded Raisin Co.* v. *Griffin & Skelly Co.*, 126 Fed., 364, 61 C. C. A., 334. For the protection of the physical or moral health of its citizens a state may restrain the use of 'the corporeal thing or article brought into existence by the application of the patented discovery.' (*Patterson* v. *Kentucky*, 97 U. S., 501, 24 L. Ed., 1115.) But such a laying on of hands does not touch the monopoly of the federal grant. Nothing in this record questions the innocence of rubber tires."

And again in reference to the Sherman Anti-Trust Act (p. 362):

> "Grant produced a new integer in the useful arts. See *Consolidated Rubber Tire Co.* v. *Firestone Tire & Rubber Co.* (C. C. A., Second Circuit, February 1, 1907), 151 Fed., 237. Plaintiff, as his successor in interest, is the owner of a valid patent. That stands as an unquestionable fact on this writ of error. The only grant to the patentee was the right to exclude others, to

have and to hold for himself and his assigns a monopoly, not a right limited or conditioned according to the sentiment of judges, but an absolute monopoly constitutionally conferred by the sovereign lawmakers. Over and above an absolute monopoly created by law, how can there be a further and an unlawful monopoly in the same thing? If plaintiff were the sole maker of Grant tires, how could plaintiff's control of prices and output injure the people, deprive them of something to which they have a right? Is a greater injury or deprivation inflicted, if plaintiff authorizes a combination or pool to do what plaintiff can do directly? To say yes means that substance is disregarded, that mere words confer upon the people some sort of a right or interest counter to the monopoly, when by the terms of the bargain the people agreed to claim none until Grant's deed to them shall have matured."

In *Butterick Pub. Co.* v. *Rose,* 141 Wis., 533, 124 N. W., 647, where the contract provided for exclusive dealings in plaintiff's articles, which were evidently patented, it was said:

"It is next contended that the contract is in restraint of trade, and that it therefore violates the provisions of section 1770g, added to St. 1898 by laws 1905, c. 506, sec. 2, and is void. While, under the patent laws, a patent creates a monopoly, it is not a monopoly of what existed before and belonged to others. which is the true idea of a monopoly, but it is a monopoly of what did not exist before, and what belongs to the patentee. In consequence it does not create an odious monopoly, and the rights of patentees thereunder are to be liberally construed. 30 Cyc., 816, and cases cited. The patentee of an article may sell it to whom he pleases, or may refuse to sell it at all. He may stipulate the retail price at which the purchaser from him may sell the article, and

may lawfully obligate a special agent appointed by him to sell his article to the exclusion of other articles of a like character. *Edison Phonograph Co.* v. *Kaufman* (C. C.), 105 Fed., 960; *Edison Phonograph Co.* v. *Pike* (C. C.), 116 Fed., 863; *National Phonograph Co.* v. *Schlegel* (C. C.), 117 Fed., 624; *Victor Talking Machine Co.* v. *The Fair*, 123 Fed., 424, 61 C. C. A., 58. We do not think that the legislature intended to extend the provisions of section 1770g to contracts made in reference to the sale of a patented article. If it did attempt to restrict the rights which a patentee acquires under the Constitution and laws of the United States, the legislation could not be upheld. *United States Consolidated S. R. Co.* v. *Griffin*, 126 Fed., 364, 61 C. C. A., 334; *Bement* v. *National Harrow Co.*, 186 U. S., 70, 22 Sup. Ct., 747, 46 L. Ed., 1058. The Constitution and all laws made in pursuance thereof constitute the supreme law of the land. Article 6, U. S. Const. Congress is empowered by the Constitution to promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive rights to their respective rights and discoveries. Section 8, art. 1, U. S. Const. This state could pass no law which materially abridged any right conferred on an inventor by a federal law passed in pursuance of the power above granted."

(2) *Copyright cases.*

Straus v. *Am. Pub. Assn.*, 177 N. Y., 473; 69 N. E., 1107.

Murphy v. *Christian Press Assn.*, 56 N. Y. S., 597.

Authors' Newspapers Assn. v. *O'Gorman Co.*, 147 F. R., 616.

Straus v. *Am. Pub. Assn.*, 111 N. Y. S., 830; 194 N. Y., 538; 86 N. E., 525.

In *Straus* v. *American Publishers' Ass'n.*, 177 N. Y., 473, 69 N. E., 1107, after reviewing the federal authorities on the subject, including *Bement* v. *Harrow Co.*, it was said in reference to contracts controlling the prices of copyright books:

> "That reasoning is employed as to patent rights. It is equally applicable to copyrights, the protection of which was perhaps the leading object of the association and agreement attacked in this action. And it points to the principle underlying the decision in the *Park & Sons Co. Case*, 175 N. Y., 1, 67 N. E., 136, 62 L. R. A., 632, upon which defendants apparently rest their claim that the judgment of the Appellate Division should be reversed. But there is a feature in this case not to be found in that one, and which requires a different judgment than the one rendered therein, which will now be pointed out."

The principles announced in these cases are directly applicable to trade secrets and articles so embodying secret processes and ingredients as to be incapable of reproduction by those unacquainted with the undivulged means and elements.

(3) *Trade Secrets.*

The methods of manufacture and the articles made thereunder, when the article, as here, is itself a secret article with its ingredients and their proportions unknown and undisclosed by the article as sold and inspection thereof, are both property and legal monopolies. Until either voluntary disclosure to or lawful discovery by the public of the secret or process they are protected as monopolies. The fact that such right and monopoly are terminable by voluntary disclosure or by lawful discovery makes no differ-

ence in their extent while the secrets exist. Letters patent and copyright expire at the end of certain periods and may be terminated or lost involuntarily before the expiration of the statutory grant. While the secret continues the property right and monopoly are absolute.

Powell v. *Birmingham Vinegar Co.*, 13 R. P. C., 235; 66 Law Journal, Chancery Division, 763. (1896) 2 Ch., 69; 14 R. P. C., 720, 728. (1897), A. C., 710.

Peabody v. *Norfolk*, 98 Mass., 452.

Stewart v. *Hook*, 118 Ga., 445; 45 S. E., 369.

Tabor v. *Hoffman*, 118 N. Y., 30; 23 N. E., 12.

Eastman Co. v. *Reichenbach*, 20 N. Y. S., 110.

Simmons Co. v. *Waibel*, 1 So. Dak., 488; 47 N. W., 814.

National Tube Co. v. *Eastern Tube Co.*, 13 O. Cir., Dec., 469, 471.

Board of Trade v. *Christie Co.*, 198 U. S., 236.

Board of Trade v. *Cella*, 145 Fed., 28.

Stone v. *Goss* (N. J.), 55 At., 736.

Thum v. *Tloczynski*, 114 Mich., 149; 72 N. W., 140.

Westervelt v. *National Paper Co.*, 154 Ind., 673; 57 N. E., 552.

Salomon v. *Hertz*, 40 N. J. Eq., 400; 2 At. Rep., 379.

Grand Rapids Wood Co. v. *Hatt*, 152 Mich., 132; 115 N. W., 714.

Phil. Extracting Co. v. *Keystone Extracting Co.*, 176 F. R., 830.

Sanitas Nut Food Co. v. *Cemer*, 134 Mich., 370; 96 N. W., 454.

Vulcan Detinning Co. v. *American Can Co.*, 67 N. J. Eq., 243; 58 At., 290.

Taylor Iron & Steel Co. v. *Nichols*, 70 N. J. Eq., 541; 61 At. R., 946; 69 At. R., 186.

National Gum Co. v. *Braendly*, 51 N. Y. S., 93.

G. F. Harvey Co. v. *National Drug Co.*, 77 N. Y. S., 674.

Pressed Steel Car Co. v. *Standard Steel Car Co.*, 210 Pa., 464; 60 At. Rep., 4.

Eastern Extracting Co. v. *Greater New York Ex. Co.*, 110 N. Y. S., 738.

Union Switch & Signal Co. v. *Sperry*, 169 F. R., 926.

Phila. Extraction Co. v. *Keystone Co.*, 176 F. R., 830.

H. B. Wiggins Sons Co. v. *Cott-A-Lap Co.*, 169 F. R., 150.

All of these decisions are based upon the idea that an invention or discovery conserved as a trade secret is a property right and that its monopoly will be preserved by injunction.

Lord Justice Lindley said in *Powell* v. *Birmingham Co.*, 13 R. P. C., 253:

> "If a man has a secret invention by which he can make an article better or cheaper than other people, he practically has a monopoly in that article until his secret is discovered, or some one else can make a better or cheaper article. There is no limit to the duration of this monopoly."

In the House of Lords (1897), A. C., 710, 14 R. P. C., 725, the Lord Chancellor said (728):

> "The composition of the well known commercial article is a secret. The exclusive manufacture of it is by the person who knows the secret and nobody else can manufacture it because they do not know how it is made."

Grand Rapids Wood Finishing Co. v. *Hatt*, 152 Mich., 132, 115 N. W., 714. Secret formulas for furniture polish were sold with covenants on the part of purchaser to sell at certain prices and not to dispose of the formulas within twenty years. These provisions were violated and an injunction asked and granted. It was urged that the covenants were violative of the Michigan Anti-Trust Act, but it was said:

> "The principal value, in many instances, of a business of manufacturing an article whose component parts are unknown, inheres in the secret formula or process for manufacturing it, and it is clear that unless the owner of such secret process is able to make a valid contract not to reveal the formula, the power to sell such property will be practically denied him. The secret process enhances, and is a part of the value of the articles manufactured and of the business carried on under it, and is as much a lawful subject of disposal as property as the articles themselves manufactured. A contract to sell such process is therefore valid and binding. *Thum Co.* v. *Tloczinski*, 114 Mich., 149, 72 N. W., 140, 38 L. R. A., 200, 68 Am. St. Rep., 469; *Peabody* v. *Norfolk*, 98 Mass., 452, 96 Am. Dec., 664; *Tode* v. *Gross*, 127 N. Y., 480, 28 N. E., 469, 13 L. R. A., 652, 24 Am. St. Rep., 475; *Wertervelt* v. *Paper Co.*, 154 Ind., 673, 57 N. E., 552; *Morse-Twist Drill Co.* v. *Morse*, 103 Mass., 73, 4 Am. Rep., 513."

(4) It is alleged and admitted that petitioner has invented and discovered these medicines and kept its processes, formulas and methods unknown to the public, and that all are existing trade secrets and that there has been no disclosure or communication to the public. The sale of these medicines is not disclosure or publication for no one has or can reproduce the remedies. The doing of anything which does not disclose the secret, but on the contrary, carefully conserves it, cannot be tortured into publication or abandonment and such is the ruling of the authorities. In fact under the admitted averments of the bill of complaint, petitioner could now apply for and obtain letters patent on each remedy.

The public sale and use of an article, the elements or ingredients of which are not discoverable by inspection or analysis is not prior use within the meaning of the patent law so as to invalidate a patent subsequently granted and where both the process of making an article and the article itself when made are secret in the sense that the method, ingredients and combination are not disclosed or known, both process and article are protected from misuse.

Ransom v. *Mayor,* 1 Fish. Pat. Cas., 267.
Boyd v. *Cherry,* 50 Fed. Rep., 279.
Matheson v. *Campbell,* 69 Fed. Rep., 597.

In *Boyd* v. *Cherry,* 50 Fed. Rep., 279, 283, Judge McCrary said:

> "If the alleged prior use of the process was under such circumstances that the public obtained no knowledge of the mode of its operation or the results to be obtained by it, there is no prior use within the meaning of the patent law."

Goodyear Co. v. *Day,* Fed. Cas., 5566, Grier, Circuit Justice, and Dickerson, District Judge, declared:

> "The question of abandonment must always depend in a great measure on the peculiar nature of the subject matter. The mere sale of a peculiar manufacture—as vulcanized rubber—which does not on its face disclose the nature of the compound, or the mode of producing it, is not such an abandonment."

The analogy between the rights of the owners of undisclosed methods and their resultant products when also incapable of reproduction is shown in *Tabor* v. *Hoffman,* 41 Hun, 5, where Judge Haight said:

> "The principle is well settled that an author or inventor has an exclusive property in his own composition or invention until its publication to the world (*Hammer* v. *Barnes,* 26 How., 174; *Kiernan* v. *The Mo. Q. T. Co.,* 50 id., 194; *Potter* v. *McPherson,* 21 Hun, 559; *Palmer* v. *DeWit,* 47 N. Y., 532; *Peabody* v. *Norfolk,* 98 Mass., 452; 2 Story's Eq. Jur., Sec. 592.) This the appellant concedes and it, therefore becomes necessary to determine whether the plaintiff's invention has been delivered to the world. So far as the patent pump is concerned, the plaintiff has doubtless no further exclusive property in the invention. The plans and specification from which the machine was constructed were placed on file in the patent office, where they became the property of the public, and all persons desiring may have copies thereof. The time within which the plaintiff was secured the sole right to manufacture and sell by the terms of the patent, having expired, any person is at liberty to now engage in the manufacture and sale of such machines. But as to the improved machine, the subsequent inventions, a different question is presented. These improvements have never been

patented, and, consequently, the plaintiff is unable to claim protection through the patent laws. He has invented and constructed patterns from which he has manufactured the improved pump. The pump so manufactured has been sold, and in that way given to the public; but the patterns from which it was manufactured have never been sold, but have always been kept subject to his own control and management. The sale of the machine does not amount to a publication of the pattern, plans and specifications from which the machine was constructed. It is possible that an individual may be able to procure plans and specifications and construct patterns from the machine that has been sold, and yet there are doubtless instances in which machinery is so complicated that it would be extremely difficult, if not impossible, so to do. In such a case the sale of the machine and its publication to the world would not enable others to manufacture and sell the same machine for the reason that the plans, specifications, patterns and devices by which the same was manufactured still remained a secret locked up in the inventor's manufactory. Suppose, for instance, that the successful operation of the machine required it to be constructed of a composition or combination of metals, which was the device and invention of the manufacturer; could it be said that the sale of the machine, to be devoted to the uses for which it was constructed, carried with it the right to the secret formula by which the inventor had compounded the material of which it was constructed, or the manner in which the material had been treated and prepared for use? We think not. Take a more common illustration, one with which the courts are familiar, having been the subject of frequent adjudications, that is, the compounding of medicines for specific diseases, where the inventor maintains the secret of the compounding as a part of his trade or business. The courts have uniformly re-

> strained all persons in his employ who necessarily become possessed of the formula in the manufacture of the article, from subsequently engaging in its manufacture, or from imparting it to others, thus in effect holding that the sale of the compounded article to the world was not a publication of the formula or device used in its manufacture."

On appeal the case was affirmed, *Tabor* v. *Hoffman*, 23 N. E., 12; 118 N. Y., 30, and it was said:

> "The courts have frequently restrained persons who have learned a secret formula for compounding medicines, beverages and the like, while in the employment of the proprietor from using it themselves or imparting it to others to his injury, thus, in effect holding, as was said by the learned general term, 'that the sale of the compounded article to the world was not a publication of the formula or device used in its manufacture.'"

(5) There is no distinction in principle between a trade secret article and patented article or a copyright article in this regard. The reasons which permit the patent or copyright proprietor to limit and restrict the sale or distribution of his article are precisely the same as the reasons which permit the owner of a trade secret article in the same way to limit and control. Each has the sole right to make and sell and the power to refrain from making or selling the article to anyone on any terms, and having ceased or refused to manufacture or sell no one can deal in the article because it cannot be lawfully made by anyone else. Having these rights and powers the possessor of a trade secret article may restrict his sales in any way he pleases; and as he is the sole and exclusive owner of the secret the public

has absolutely no interest in it. In all cases the patent, copyright or trade secret article has never fallen into the public domain, the public has no rights therein and limitations put upon who may buy or at what prices invade no public right and inflict no public wrong.

(6) Trade secrets and trade secret products are put, as to contracts and control, precisely, so far as the monopoly is concerned, upon the same basis as articles made under or covered by letters patent.

Harrison v. *Glucose Co.*, 116 Fed., 304.
Standard Fire Proofing Co. v. *St. Louis Co.*, 177 Mo., 559; 76 S. W., 1008.
Tode v. *Gross*, 127 N. Y., 480; 28 N. E., 469.
Board of Trade v. *Cella Co.*, 145 F. R., 28, 30.
Clark v. *Frank*, 17 Mo. App., 602.
Chicago Board of Trade v. *Christie Co.*, 198 U. S., 236.
In re Park, 138 Fed., 421.
Rubber Tire Wheel Co. v. *Milwaukee Rubber Works*, 142 Fed., 531; 154 Fed., 358.
Hunt v. *New York Cotton Exchange*, 205 U. S., 322.

In *Board of Trade* v. *Christie Co.*, 198 U. S., 236, it was urged that the restrictive contracts between the Board of Trade and the telegraph companies which forbade communication by the companies of the quotations to any person not previously approved by the Board of Trade and which approval or designation was dependent upon entering into a prior contract with the Board that the broker would not

conduct or furnish the quotations to a bucket shop, were in restraint of trade and void both at common law and under the anti-trust statute, but it was held that the objection was not well taken, Mr. Justice Holmes saying:

> "In the first place apart from special objections, the plaintiff's collection of quotations is entitled to the protection of the law. It stands like a trade secret. The plaintiff has the right to keep the work which it has done, or paid for doing, to itself. * * * But so far as these contracts limit the communication of what the plaintiff might have refrained from communicating to anyone, there is no monopoly or attempt at monopoly, and no contract in restraint of trade, either under the statute or at common law. (*Bement & Sons* v. *National Harrow Co.*, 186 U. S., 70, 46 L. Ed., 1058, 22 Sup. Ct. Rep., 747; *Fowle* v. *Park*, 131 U. S., 88, 33 L. Ed., 67, 9 Sup. Ct. Rep., 658; *Elliman* v. *Carrington* (1901), 2 Ch., 275.)"

This decision in principle governs the present case in every detail.

In *N. Y. Cotton Exch.* v. *Hunt*, 144 Fed., 511, McCall, J. (519), affirmed 205 U. S., 322, said:

> "But, aside from this, in the Christie case, *supra*, market quotations similar to those involved in this case were held to be property, and belonged to the party collecting them, and such party has the right to control them, and to that end, such party could by contract say who should distribute them, and limit their distribution to such parties as the owner sees proper, and on such reasonable terms as it may impose."

(7) Plans similar to that of petitioner have been repeatedly recognized and protected by the Federal Courts in carefully considered opinions upon the

ground of direct analogy between the rights and monopolies of patented and trade secret articles. In these sustained plans, however, the contracts with the wholesale dealers were contracts of sale passing title.

Dr. Miles Medical Co. v. *Goldthwaite,* 133 Fed., 794.

In re Park, 138 Fed., 421.

Dr. Miles Medical Co. v. *Jayne,* 149 Fed., 838.

Hartman v. *Park,* 145 Fed., 358.

Dr. Miles Medical Co. v. *Platt,* 142 Fed., 606.

Hartman v. *Platt,* 142 Fed., 606.

World's Dispensary Medical Assn. v. *Platt,* 142 Fed., 606.

Park v. *Bruen,* 139 Fed., 698.

Wells & Richardson Co. v. *Abraham,* 146 Fed., 190; affirmed C. C. A., 2nd Cir., Nov. 20, 1906.

Loder v. *Jayne,* U. S. C. C., Eastern District Penn. Judge Holland's charge to the jury (not reported).

Jayne v. *Loder* (C. C. A., 3rd. Cir.), 149 Fed., 21.

Paris Medicine Co. v. *Hegeman Co.* Petition for *certiorari,* Exs. I and L., pp. 64 and 85.

In *Dr. Miles Medical Co.* v. *Jayne Drug Co.,* 149 Fed., 838, it was said by Judge Colt, after an elaborate oral discussion and briefs:

> "The bill alleges that the complainant is the exclusive owner of these secret formulas, and the exclusive manufacturer of these remedies. It

follows that, until voluntary disclosure or lawful discovery, the complainant has an exclusive property in these trade secrets, and has the exclusive right to make, use and vend the articles made thereunder. The exclusive right of property in a trade secret is of necessity a monopoly, the same as a patent or copyright. The complainant may make these articles, or refrain from making them. It may sell them, or refrain from selling them. It may sell them to one person, and not to another, and at such prices and upon such conditions as it may deem most advantageous. Contracts like those set out in the bill concerning articles made under trade secrets, the same as similar contracts concerning articles made under a patent or a copyright, are outside the rule of restraint of trade, whether at common law or under the Federal statute. *Hartman* v. *Park,* 143 Fed. Rep., 358; *Dr. Miles Medical Company* v. *Platt,* 142 Fed. Rep., 606; *Wells & Richardson Company* v. *Abraham,* 146 Fed. Rep., 190; *Dr. Miles Medical Company* v. *Goldthwaite,* 133 Fed. Rep., 794; *Bement* v. *National Harrow Company,* 186 U. S., 70; *Board of Trade* v. *Christie,* 198 U. S., 236, 252; *Garst* v. *Harris,* 177 Mass., 72, 74; *Fowle* v. *Park,* 131 U. S., 88, 97; *Park & Sons Company* v. *National Wholesale Druggists' Association,* 175 N. Y., 1; *Standard Fireproofing Company* v. *St. Louis Company,* 177 Mo., 559; *Victor Company* v. *The Fair,* 123 Fed. Rep., 424; *Heaton-Peninsular Company* v. *Eureka Company,* 77 Fed. Rep., 288; *Central Shade Company* v. *Cushman,* 143 Mass., 353; *Good* v. *Daland,* 121 N. Y., 1."

In *Dr. Miles Medical Co.* v. *Platt,* 142 Fed., 606, Judge Kohlsatt said:

"That the contract, serial number and card system is valid and lawful is thoroughly settled by the authorities. The products being made under trade secrets, of which complainants are

the exclusive owners and no other person having any interest in or right to the secret formulas under which the articles are made, or to the articles themselves, the manufacturers may withhold them entirely from sale, may sell them on such terms as they please, may withhold them from one person while selling to others, and may fix any price in their sole and exclusive discretion. This rule is abundantly settled.

* * * * *

"The right of a patentee, owner of a copyright or owner of a secret process is merely the right of exclusion or debarment. The holder of such a property rights, as said by the court in the Victor Talking Machine case above cited, is a czar in his own domain. He may sell or not, as he chooses. He may fix such prices as he pleases. He may sell at one price to one person, and another to another person. He is not required to give reasons or deal fairly with purchasers."

In *Wells & Richardson Co.* v. *Abraham,* 146 F. R., 190, Judge Thomas said:

"The contracts with the complainant's vendees are legal. Resort need not be had to the voluminous briefs submitted, for the defendants in thir brief say:

'The validity of these contracts as between the parties is nowhere attacked. On the contrary, the whole argument proceeded on the theory that, though as between the parties thereto such contracts could probably be enforced, third parties who did not assent thereto, and who were under no contractual obligation to the complainant, could not in the absence of proof of fraud or conspiracy be compelled to observe such contracts, in the case of articles made under secret processes, any more than if such articles were not made under secret processes, and that the patent cases which granted such remedy had no application to the case at bar.'

> The concession as to the legality of the contract accords with the decision in *Park & Sons Co.* v. *National Wholesale Druggists' Association,* 175 N. Y., 1; 67 N. E., 136; 62 L. R. A., 632; 96 Am. St. Rep., 578; *Garst* v. *Harris,* 177 Mass., 72; 58 N. E., 174; *Garst* v. *Charles,* 187 Mass., 144; 72 N. E., 839."

This conclusion was affirmed by the Circuit Court of Appeals, Second Circuit, November 20, 1906, in the following language:

(See petition for certiorari herein, Exhibit F, p. 46.)

> "The assignments of error do not require us to decide whether the terms of the injunction are broader than the case warrants. The fifteenth assignment is the only one directed to the point, and does not specify any particulars in which the terms are too broad.
>
> For reasons stated on the argument we are of the opinion that we are not authorized to pass upon the question of jurisdiction presented.
>
> Upon the principal question argued we are not convinced of the unsoundness of the conclusions of Judge Thomas as expressed in his opinion in the court below, and see no reason for departing from our usual custom not to formulate an extended opinion on appeals from orders for preliminary injunctions where we affirm the court below unless we disapprove the reasoning of its opinion. The order is affirmed."

In *Loder* v. *Jayne* (Circuit Court, East District Pennsylvania) which was a suit to recover treble damages under the Federal Anti-Trust statute arising to the plaintiff from an alleged conspiracy and boycott, in a very elaborate charge to the jury, Judge Holland, among other things, stated:

"It is true, as claimed by the defendants, that any proprietor of a patent medicine, or goods such as those involved in this suit, has a right to sell his goods, or refuse to sell them, to whomsoever he may see fit, and he may lawfully say who shall handle his goods at wholesale, and upon what conditions the wholesaler may dispose of them to the retailer, and prescribe the conditions upon which the retailer shall sell them to the consumer, and in case of any violation of his agreement by either the wholesaler or retailer, the proprietor has a lawful right to refuse to sell his goods in the future to either. And so the wholesaler has the lawful right to purchase, or refuse to purchase, goods from a proprietor, or to sell, or refuse to sell to a retailer, and the wholesaler or proprietor has a lawful right to refuse to sell to a retailer who he finds is cutting the prices below what either of them contracted with the retailer to sell the goods at."

And, upon requests tendered by the defendants, also charged as follows:

"The manufacturer of a proprietary medicine or food, manufactured under a trade secret or trade mark, to which such manufacturer has given value by advertisement and personal efforts, has a right to prescribe the price of his product and to bind purchasers from him not to sell the same at a less price, or to resell to such persons as shall be by him designated. It is the duty of all purchasers of goods from such manufacturer under such circumstances to carry out his contract. The manufacturer subjects himself to no liability to persons to whom he refuses to sell, whether his reasons therefor be good or purely capricious.

This is true.

'The manufacturer of a proprietary medicine or food, manufactured under a trade secret or trade-mark, to which such manufacturer has

given value by advertisement and personal efforts, is entitled to prescribe as one of the terms of the sale to others, of his manufactured product, that they shall not resell the goods purchased from him to persons who have aggressively cut prices of such, or similar goods or who sells to such aggressive cutters. He exposes himself to no liability for damages by reason of his thus not selling or refusing to sell to such aggressive cutters, or to such persons dealing with them.'

This is true.

'The purchasers from manufacturers under such contracts have a right to refuse to resell the goods thus purchased, to persons designated by the proprietor, without exposing themselves to any liability to damage in favor of the person to whom they have thus refused to resell.'

This is true."

This case was appealed and in passing upon various questions, the Circuit Court of Appeals, of the Third Circuit (*Jayne* v. *Loder,* 149 Fed., 21), after stating the contentions and arguments on behalf of both parties, through Judge Archibald said:

"Undoubtedly the originator and compounder of a proprietary medicine may shape his own policy and sell or withhold from selling as he pleases, according to supposed self-interest or whim, fixing the prices and naming the terms and conditions at and upon which alone he will do so, refusing to those who will not comply. And so far as this is confined to his own goods, and pursued by independent and individual action, it cannot be challenged."

And then proceeded to condemn arrangements between different manufacturers and associations which were plainly illegal.

(8) Adjudications upon contracts and methods similar in form and identical in legal principles and result are to the same effect and based largely upon the same reasoning.

Fowle v. *Park*, 131 U. S., 88, 97.

National Tel. News Co. v. *West. Union Tel. Co.*, 119 F. R., 294.

Board of Trade v. *Christie Co.*, 121 F. R., 608; 198 U. S., 236.

Garst v. *Harris*, 177 Mass., 72; 58 N. E., 174.

Garst v. *Charles*, 187 Mass., 144; 72 N. E., 839.

Park v. *National Wholesale Druggists' Assn.*, 175 N. Y., 1; 67 N. E., 136.

Bancroft v. *Union Embossing Co.*, 72 N. H., 402; 57 Atl. Rep., 96.

Elliman v. *Carrington* (1901), 2 Ch., 275, 84 L. T. (N. S.), 858.

Hartman v. *Jno. P. Park & Son Co.*, 145 F. R., 358.

In *Garst* v. *Harris*, 177 Mass., 72; 58 N. E., 174, Chief Justice Holmes said:

> "This is an action of contract to recover $21 as liquidated damages for breach of an agreement not to sell Phenyo-Caffein below a stipplated price. Phenyo-Caffein was a proprietary medicine purchased by the defendant of the plaintiff. At the time of the sale, and as a part of it, a written statement of terms, containing this agreement, was read to the defendant and delivered to him. One stipulation expressed in the document was that the acceptance of the goods, with the notice of the conditions of the

sale should be an assent to the terms. The defendant accepted the goods and expressed no dissent. There is no question, therefore, that he agreed to those terms upon the consideration of the sale, which was made with a deduction from the full retail price. The defendant sold the goods so purchased below the stipulated price, and broke his contract. So much of the defendant's argument as denies the agreement, the consideration, or the applicability of the contract to the goods sold, needs no further discussion.

The rest of the defense needs but a few words. It is said that the contract was unlawful, as in restraint of trade. Some limits were set to the inherited doctrine on this subject by the recent case of *Electric Co.* v. *Hawkes*, 171 Mass., 101, 50 N. E., 509, 41 L. R. A., 189, as they had been in England before. When, as here, there is a secret composition, which the defendant presumably would have no chance to sell at a profit at all, but for the plaintiff's permission, a limit to the license, in the form of a restriction of the price at which he may sell, is proper enough. See *Machine Co.* v. *Morse*, 103 Mass., 73; *Roller Co.* v. *Cushman*, 143 Mass., 353, 9 N. E., 629; *Gloucester Isinglass & Glue Co.* v. *Russia Cement Co.*, 154 Mass., 92, 27 N. E., 1005, 12 L. R. A., 563; *Fowle* v. *Park*, 131 U. S., 88, 97, 9 Sup. Ct., 33 L. Ed., 67; *Walsh* v. *Dwight*, 40 App. Div., 513, 58 N. Y. Supp., 91."

This decision was followed in *Garst* v. *Charles*, 187 Mass., 144; 72 N. E., 809.

(9) Contracts having to do with patented or proprietary articles, and fixing prices and regulating distribution are not affected by Act of Congress of July 2, 1890.

Bement v. *National Harrow Co.*, 186 U. S., 70.

Board of Trade v. *Christie Co.*, 121 F. R., 608; 198 U. S., 236.
Phillips v. *Iola Cement Co.*, 125 F. R., 593.
Bancroft v. *Union Em. Co.*, 72 N. H., 402; 57 At., 96.
Whitwell v. *Cont. Tob. Co.*, 125 F. R., 454.
Booth v. *Davis*, 127 F. R., 875; 131 F. R., 31.
Field v. *Barber Asphalt Pav. Co.*, 194 U. S., 618.
Walsh v. *Dwight*, 58 N. Y. S., 91.
Hopkins v. *U. S.*, 171 U. S., 578.
Anderson v. *U. S.*, 171 U. S., 604.
U. S. v. *E. C. Knight Co.*, 156 U. S., 1.
Park v. *National Wholesale Druggists Assn.*, 175 N. Y., 1; 67 N. E., 136.
Rubber Tire Wheel Co. v. *Milwaukee Rubber Works*, 142 Fed., 531; 154 Fed., 358.
Indiana Mnfg. Co. v. *Case*, 154 Fed., 365.

(f) But aside from all questions of monopoly or protection by trade marks, trade secrets, letters patent or copyright, courts have ruled that a manufacturer may in the sale of his own product impose upon his vendee reasonable conditions as to prices and persons on resale as long as the arrangement is confined solely to his own product and does not concern the product of another.

National Phonograph Co. v. *Edison Bell Co.* (1907), L. R., 1. Ch. 335; 98 L. T. R., 291.
Commonwealth v. *Grinstead*, 111 Ky., 203, 63 S. W., 427.
Garst v. *Harris*, 177 Mass., 72; 58 N. E., 174.

Garst v. *Charles,* 187 Mass., 144, 72 N. E., 839.

Elliman v. *Carrington* (1901), 2 Ch. 275, 84 L. T. (N. S.), 858.

Grogan v. *Chaffee,* 156 Cal., 611, 105 Pac., 745.

Walsh v. *Dwight,* 58 N. Y., 91.

Rackeman v. *Riverbank Imp. Co.,* 167 Mass., 1, 44 N. E., 990.

In *National Phonograph Co.* v. *Edison Bell Co.* (1907), L. R., 1, Ch. 335, which was a case involving a system of contracts similar to that here, it appeared that plaintiff, a manufacturer of phonographs and records had a "suspended list" which included the names of persons to whom plaintiff did not desire its goods sold and all plaintiff's customers were required to sign an agreement, one of the terms of which was that they must not resell to any dealer who had not signed an agreement with plaintiff, or to any dealer who was on the "suspended list." Defendants were on the "suspended list" and had procured by various means certain dealers who had signed agreements with plaintiff to violate their agreements and sell to defendants. Plaintiff sought an injunction. This was denied below (23 Times Law Reports, 189) on the double ground that the contracts were in restraint of trade and defendant's conduct not actionable. The Court of Appeal reversed and held the contracts valid and inducing violation enjoinable, Lord Justice Buckley saying:

"The factor was deceived, and, for that reason, an action for breach of contract may not lie

against him. He acted innocently, and did not voluntarily commit any breach of his contract. In my judgment this does not differentiate the present case in the respondents' favor from the first proposition found in Lord Watson's words. The defendant is in no better case because the wrong to the plaintiff, which, in fact, was done, was, by reason of the defendant's deceit, done innocently so far as the factor was concerned. Again, if this is not well founded, then, in my judgment, Lord Watson's second proposition at any rate applies. Assuming that the act induced was within the right of the factor in the sense that he, being innocent, did no wrong, and was therefore not wrongful so far as the factor was concerned, yet it was to the detriment of a third party—namely, the plaintiffs. In that case, says Lord Watson, the inducer, that is, the defendants, may be held liable if the defendants can be shown to have procured their object by the use of illegal means and directed against the plaintiffs. The deceit which the defendants practiced brings them, I think, exactly within these words. Let me now take Lord Macnaghten's words. The act which the defendants did was, I think, a violation of a legal right of the plaintiffs, because it interfered with the contractual relations subsisting between the plaintiffs and the factors, and there was no sufficient justification for such interference. But there is another ground upon which the same conclusion may be based, and that is interference with the rights of property. The business of the plaintiff company was property. The sale of phonographic machines induced the purchase, by the purchasers of such machines, of accessories to be used with them, the principal subject matter being records, whose sale produced a profit much larger than that made on the machine itself. The purchase by the defendants of the 700 or other number of machines which they, in fact, bought

might affect the subsequent sale by the plaintiffs of the records, and thus affect the plaintiffs' property in their business. 'No man,' says Lord Bowen in *Mogul Steamship Company* v. *McGregor* (61 L. T. Rep., 820; 23 Q. B. Div., 598), 'whether trader or not, can, however, justify damaging another in his commercial business by fraud or misrepresentation. Intimidation, obstruction, and molestation are forbidden, so is the intentional procurement of a violation of individual rights contractual or other, assuming always that there is no just cause for it.' In the *Exchange Telegraph Company* v. *Gregory* (*ubi sup.*)an action was held to be maintainable which thus affected property. It is the third case put in Rigby, L. J.'s judgment—that is to say, 'an attack made on the right or interest of persons in the business they carry on.' In such case, he says, the fact of damage is the thing which brings the defendant into relation with the plaintiff. Upon these grounds I think that it was an actionable wrong that the defendants, by deceit, induced the factors to act contrary to the duty which they contractually owed to the plaintiffs, and that this action will lie."

In *Grogan* v. *Chaffee*, 156 Cal., 611, 105 Pac. R., 745, the Supreme Court of California sustained as legal and protected a condition affixed to the articles by a maker of olive oil under a process discovered by the manufacturer requiring the maintainance of a fixed price at retail and the imposing of a like condition if sold at wholesale. It was ruled that the condition was not obnoxious to either the statute or common law.

It was said:

"The contract here relied on does not relate to any olive oil except that manufactured by plaintiff. There is no suggestion that this com-

prises all, or any large proportion, of the olive oil manufactured or sold in the market, supplied by plaintiff. While plaintiff alleges that he manufactures oil by a process of his own discovery, there is nothing exclusive in the product resulting from this process. All that he claims for his oil is that it is pure and wholesome. The court must assume, as a matter of common knowledge that others may and do manufacture pure olive oil in considerable quantities.

Under these circumstances, we see no reason why the contract alleged by plaintiff should not, as between the parties to it, be held to be valid. It violates no canon of public policy. By its terms the buyer is not precluded from engaging in any lawful trade. He may sell other olive oil at any price and on any conditions satisfactory to him. The producer was, in the first instance, under no obligation to sell his oil, and when he did sell it, had the right to exact as part of the consideration for the sale, a promise by the purchaser that he would not sell it at less than a stipulated price. There is nothing either unreasonable or unlawful in the effort by a manufacturer to maintain a standard price for his goods. It is simply a means of securing the legitimate benefits of the reputation which his product may have attained. Contracts similar to the one under discussion have been considered in a number of cases, and have generally been upheld where, as here, they had no tendency to create a monopoly. (*Fowle* v. *Park*, 131 U. S., 88; *Bement* v. *National Harrow Co.*, 186 U. S., 70; *Park & Sons* v. *National Druggists' Association*, 175 N. Y., 1; *Garst* v. *Harris*, 177 Mass., 72; *Dr. Miles Med. Co.* v. *Goldthwaite*, 133 Fed., 794; *Dr. Miles Med. Co.* v. *Platt*, 142 Fed., 606; *Dr. Miles Med. Co.* v. *Jaynes Drug Co.*, 149 Fed., 838; *Walsh* v. *Dwight*, 40 App. Div. (N. Y.), 513.) Many of these decisions, it is true, deal with contracts concerning the sale of patented

or proprietary articles, and are based, to some extent, upon the principle that a monopoly right is inherent in a patent or in an article produced according to a formula known only to its manufacturer. It has been questioned whether the fact that an article is produced under a secret formula is of any importance in determining the validity of contracts regarding its sale. (*Hartman* v. *John D. Park & Sons Co.*, 145 Fed., 358; s. c., on appeal, *John D. Park & Sons Co.* v. *Hartman*, 153 Fed., 24.) However this may be, we are cited to no case which holds that a contract like the one at bar is invalid as between the parties to it, whether it deals with an article produced under patent or secret formula or one that may be produced by any one."

And again:

"It is suggested rather than argued by respondent that the agreement relied on by appellant is unlawful under the provisions of the statute of 1907 entitled 'An Act to define trusts and to provide for criminal penalties and civil damages, and punishment of corporations, persons, firms, and associations, or persons connected with them, and to promote free competition in commerce and all classes of business in this state,' approved March 23, 1907, commonly known as the Cartwright Act (Stats. 1907, p. 984). While this statute was not enacted until after the present action was commenced, the judgment entered and the appeal taken, it might well be that even though the judgment may have been erroneous when made it would not be reversed if such reversal would require the trial court to grant relief which should not be given under the law existing when the action came to be decided on appeal. The respondent has not, however, pointed out to us any provision of the statute (Cartwright Act) which prohibits the making of contracts of the character of the one here involved. Combinations of capital, skill or

acts by two or more persons for the purpose of fixing the price of any article, or of making agreements not to sell any article below a given fixed standard, are defined by the act to be 'trusts' and declared to be 'unlawful, against public policy and void.' The purpose of the act, as shown by its title, is to 'promote free competition in commerce.' It seems clear that the combination denounced by the act is one between persons occupying similar relations to the article in question—between persons, that is to say, each of whom would in the absence of agreement or combination be in a position to sell the article at any price which might seem proper to him. A sale or delivery by A to B on the condition that B shall not sell below a certain price is not a combination of 'capital, skill or acts' between A and B. A has sole control of the subject of the agreement and may, as has been pointed out, sell or refuse to sell. There is no question of competition as between the parties. If the act were to be given the sweeping construction contended for, it would make unlawful a contract whereby a manufacturer or owner appoints an agent to sell his goods and fixes the price at which such agent may sell. To prohibit transactions of this character was certainly not within the intent of the legislature. The agreement here involved is equally beyond the scope of the act.

The judgment is reversed, with directions to the Superior Court to overrule the demurrer, granting leave to the defendant to answer."

In *Commonwealth* v. *Grinstead*, 111 Ky., 203; 63 S. W., 427, an agreement by one who buys goods from a manufacturer not to resell them for less than a certain price, held not in restraint of trade, or in violation of Kentucky St., Section 3915 (the Anti-Trust Act).

Du Relle, J. (427):

"It appears, further, that certain brands of various kinds of groceries of established reputation are protected by the manufacturers or the owners of the brands by a refusal to sell the goods to any one who will not agree to refrain from selling them at a price below a minimum, from time to time fixed by the manufacturer or owner of the brand. The association receives information of changes in the price upon such articles from the manufacturer, and sends that information immediately to its members. There does not appear, from the testimony in this case, to be any obligation on the part of any member of the association to the other members to fix, control, or regulate the price of any of the goods, but that as to what, in the language of the trade, are called 'contract goods,' or goods upon which the manufacturer puts a fixed selling price, the manufacturer alone regulates and controls the minimum price at which the jobbers may sell the goods, and this is done by requiring the customers to agree not to resell the goods at a price less than that fixed by him. We are not called upon to decide whether the legislature could prevent the manufacturer from requiring such an agreement of his customers. All that is necessary to decide here is that such an agreement with the manufacturer is not within the purview of the statute. It is not error, therefore, for the Circuit Court to direct the jury to find the defendants not guilty, and the judgment is affirmed."

Elliman v. *Carrington* (1901), 2 Ch., 275, 84 L. T. (N. S.), 858.

Complainant was a manufacturer of proprietary medicines Elliman's Royal Embrocation for horses and cattle and Elliman's Universal Embrocation for human beings. These were sold to wholesale deal-

ers at fixed prices and on condition that the wholesaler resell at fixed prices and further that when sold to retail dealers, that the wholesale dealer procure from the retail dealer agreements that they, in turn, would not sell at less than a fixed price. Suit on one of these contracts; defense, restraint of trade. Mr. Justice Kekewich said:

> "They are not bound to sell the Embrocation at all; they are not bound to manufacture it. They are at liberty to do as they please, and when they have manufactured it, they are at liberty to sell it at whatever price they choose to fix, it may be a prohibitive one, or it may be such a small price that they cannot make a profit out of it. That is entirely for their consideration. There are no goods which the owner thereof may not lawfully retain or sell at such a price as he pleases.
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> * * * * *
>
> Why should not Elliman, Sons & Co. be at liberty to fix the price in that way? Nobody has argued that they are not at liberty to fix the price on the first sale to Carrington & Son. Why should they not be at liberty to make the further bargain with Carrington & Son that they shall not sell it below a certain price? It is said that the contract is in restraint of trade. In one sense it is but it is just as much and no more in restraint of trade for Elliman, Sons & Co. to say that they will not sell it at all. It seems to me, to say the least, that what is restraint of trade as regards Carrington & Son is really the liberty of trade as regards Elliman, Sons & Co.
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> * * * * *
>
> It is merely a question of whether a man is entitled when he is selling his own goods to make a bargain as to the use to be made of them by the purchaser. It is said that the contract is against public policy, but that phrase merely

embodied for the present purpose the great principle of restraint of trade, and to say that it is to prevent Elliman, Sons & Co. from exercising their own discretion, seems to me to be applying a well settled principle of law to facts to which it cannot have any possible application. If that principle is to be applied to such a case, it must be applied elsewhere, but I cannot myself see that it has any application at all. On the question therefore, as to the validity of the contract, I am entirely against the defendants."

Walsh v. *Dwight*, 58 N. Y. Supp., 91.

The manufacturer of Cow Brand Saleratus and Soda, made agreements with his customers to give them rebates if they refused to sell his product at less than a certain price.

Ingraham, J. (92):

"There is, however, nothing in the contract alleged in the complaint to have been made by the defendants which prevents the jobbers and dealers from purchasing or selling the goods of others than the defendants. The defendants simply offered to parties purchasing their goods to make a reduction in the price of the goods sold, in consideration of the purchasers agreeing not to sell the goods at a less price than that named, and not to sell the goods of other manufacturers at a less price than that at which they had agreed to sell the defendants' goods. It is difficult to see upon what ground it can be claimed that such a contract is illegal. That the defendants would have the right to establish agencies for the sale of their goods, or to employ others to sell them, at such prices as the defendants should designate, cannot be disputed. Nor can it be that a manufacturer of merchandise cannot agree to sell to others upon

condition that the vendees, in selling at retail, should charge a specified price for the goods sold, or should sell only the manufactured product of the manufacturer. If a dealer in articles of this kind, for his own advantage, agrees to confine his business to a particular line of goods, or agrees with the manufacturer to charge a particular price for the articles which he sells in his business, such an agreement is not illegal as in restraint of trade or as tending to create a monopoly, as there is nothing in the agreement to prevent others from engaging in the business, or the manufacturers of other articles from selling their products to any one who is willing to buy. There is nothing to prevent an individual from selling any property that he has at any price which he can get for it. Nor is there any reason why an individual should not agree that he will not sell property which he owns at the time of making the agreement, or which he thereafter acquires, at less than a fixed price; and certainly a contract of this kind is not one which exposes the parties to it to any penalty, or subjects them to an action for damages by those whose business such a contract has interfered with."

It was held that the New York Anti-Trust Act did not apply, the court saying (93):

"This act did not have the effect of preventing a manufacturer from fixing the price at which his articles should be sold, or from making an agreement with those persons who acted as the jobbers or retailers of his manufactured articles that they would deal exclusively in his merchandise, or would not sell the merchandise of other persons at a less price than that for which his product was sold."

Held further Sherman act did not apply (94):

"A contract by a single manufacturer as to the price at which his goods, when manufac-

tured, should be sold by those selected by him for the purpose of sale or distribution, would not be a contract by which competition in the supply or price of the commodity would be restrained or prevented. All of the manufacturers could compete with these defendants in the sale of these goods, or the making of a contract such as was made by the defendants. The contract in question simply gave to such of their customers as chose to make the agreement with them an advantage as to the price for which goods were purchased which those who refused to come to such an understanding did not share. That such an agreement is not illegal has been settled by a long line of authorities."

Rackemann v. *Riverbank Imp. Co.*, 167 Mass., 1; 44 N. E., 990.

Vendor sold a lot in a suburb and agreed not to sell other lots in the same plat for less than the price paid by vendee for his lot. Held not in restraint of trade.

Allen, J. (991):

"The defendant contends that the offer of the agent that the defendant would not sell any of its other land for less than $3.50 a foot, if made, was void as against public policy, in that it might remove from sale in the market a very large tract of land in Boston for a very long time, namely, until the defendant could obtain that price for every foot of its remaining land. But such an agreement is to be construed in view of the circumstances, and, no limit of time being fixed, it would only last for a reasonable length of time. *Park* v. *Whitney*, 148 Mass., 278, 19 N. E., 161; *Loring* v. *City of Boston*, 7 Metc. (Mass.), 409; *Atwood* v. *Cobb*, 16 Pick., 227, 231; 1 Sugd. Vend. (8th Am. Ed.), 271; 1 Chit. Cont. (11th Am. Ed.), 434; 2 Chit. Cont.

(11th Am. Ed.), 1062. So construed, it is not open to objection on the ground of public policy. *Winsor* v. *Mills*, 157 Mass., 367, 364, 32 N. E., 352. On the face of the bill, we cannot say that one year was an unreasonable time."

Other decisions in principle sustain the theories of these adjudications and permit conditions and restrictions to be imposed in connection with the sale or use of property.

Brown v. *Rounsavell*, 78 Ill., 589.

Clark v. *Crosby*, 37 Vt., 188.

Central Shade Roller Co. v. *Cushman*, 143 Mass., 353; 9 N. E., 629.

Blauner v. *Williams Co.*, 73 N. Y. S., 165.

Phillips v. *Iola Portland Cement Co.*, 125 F. R., 593.

Meyer v. *Estes*, 164 Mass., 457; 41 N. E., 683.

Crystal Ice Co. v. *San Antonio Brew. Co.*, 8 Tex. Civ. App., 1; 27 S. W., 210.

Bancroft v. *Embossing Co.*, 72 N. H., 402; 57 At., 97.

Twomey v. *Peoples Ice Co.*, 66 Cal., 233; 5 Pac., 158.

Schwahn v. *Holmes*, 49 Cal., 656.

Hodge v. *Sloan*, 107 N. Y., 244; 17 N. E., 335.

Kellogg v. *Chandler*, 3 Chandler (Wis.), 133.

Lanyon v. *Garden City Sand Co.*, 223 Ill., 616; 79 N. E., 313.

Leslie v. *Lorrillard*, 110 N. Y., 519; 18 N. E., 363.

Carter Crume Co. v. *Peurrung*, 86 F. R., 439.

Heimbuecher v. *Goff*, 119 Ill. App., 373.

Over v. *Foundry Co.*, 37 Ind. App., 452; 77 N. E., 302.
Van Marter v. *Babcock*, 23 Barb., 633.
Hadden v. *Dimmick*, 31 How. Pr., 196.

Brown v. *Rounsavell*, 78 Ill., 589.

It was agreed that one of the parties should purchase from the other at certain prices Aetna sewing machines for sale in Cook County, in consideration thereof the purchaser agreed to deal exclusively in Aetna sewing machines.

Mr. Justice Sheldon (591):

"Because the contract restricts Hanson & Wulf to deal exclusively in the Aetna sewing machines sold by Rounsavell, and to purchase their supply of him, it is claimed to be in restraint of trade, and therefore void. We see nothing in such a contract so in restraint of trade as to make it, in that respect against public policy, and require that it should be adjudged void. We know of no warrant of authority therefor."

Clark v. *Crosby*, 37 Vt., 188.

Upon considering that plaintiff, a dentist, should keep himself supplied with false teeth by purchases of defendant the latter agreed to sell such teeth to none else in plaintiff's town. Defendant violated his contract and sold teeth to a druggist who cut the price. Plaintiff sued.

Kellogg, J.:

"The court found that the sales by Smith, and his offering the teeth in the same vicinity with the plaintiff at low prices, had the effect not only to lessen the amount of the plaintiff's

sales, but so to reduce the price of the teeth in this market as to damage the plaintiff beyond the amount of profit which otherwise might have been made on the amount of Smith's sales and the plaintiff claimed that it had the effect to render the stock of teeth which he had on hand unsalable at any profit, and to render it almost valueless to him by ruining the reputation of the teeth in this market; and the court found that to some extent it had this effect."

Plaintiff recovered.

In *Central Shade Roller Co.* v. *Cushman,* 143 Mass., 353, 9 N. E., 629, it was held that a contract whereby several manufacturers of shade rollers agreed to sell their output solely to a corporation formed for the purpose, the manufacturers themselves to act as selling agents of the corporation, was not void as against public policy, where it did not appear that such agreement was in fact injurious to the public; since such contract does not restrict the sale of a commodity, nor merchandise to be bought and sold in the market.

W. Allen, J. (631):

"To these restrictions, clearly valid, there is added the one which affords an argument for the invalidity of the contract,—the restriction as to price. That restriction is, in substance, that the price for rollers of the same grade, made by different parties, shall be the same, and shall be, according to a schedule contained in the contract, subject to changes which may be made by the plaintiff upon recommendation of three-fourths of its stockholders. In effect, it is an agreement between three makers of a commodity that for three years they will sell it at a uniform price fixed at the outset, and to be changed only by consent of a majority of them.

> The agreement does not refer to an article of prime necessity, nor to a staple of commerce, nor to merchandise to be bought and sold in the market, but to a particular curtain fixture of the parties' own manufacture. It does not look to affecting competition from outside,—the parties have a monopoly by their patents,—but only to restrict competition in price between themselves. Even if such an agreement tends to raise the price of the commodity, it is one which the parties have a right to make. To hold otherwise would be to impair the right of persons to make contracts, and to put a price on the products of their own industry.
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> * * * * *
>
> A natural purpose and a natural effect is to maintain a fair and uniform price, and to prevent the injurious effects, both to producers and consumers, of fluctuating prices caused by undue competition."

In *Blauner* v. *Williams Co.*, 36 Misc., 173, 73 N. Y. Supp., 165, it was held that an agreement by a vendor of jackets not to manufacture or sell any jackets of the same design to any other than the vendee was not invalid as an unreasonable restraint of trade.

Gildersleeve, J. (166):

> "The contract in question restrained the manufacture and sale of one particular article of a certain design or pattern only, and the benefit it was intended to confer was reasonable."

Phillips v. *Iola Portland Cement Co.*, 125 Fed., 593.

Defendant was a dealer in cement in Texas and purchased from plaintiff cement in Kansas, agree-

ing not to sell outside of Texas. Refusal to accept part of cement. Suit on contract, defense illegal under Sherman law. Held not in restraint of trade.

Sanborn, J. (595):

> "The Iola Cement Company had no monopoly of the manufacture or sale of cement in the United States. It was surrounded by competing manufacturers, and the contract which it made with Parr & Co., of Galveston, had no direct or substantial effect upon competition in trade among the states. It left the manufacturers who were competing with the plaintiff for the trade of the country free to select their customers, to fix their prices, and to dictate their terms for the sales of the commodities they offered, so that in this regard no restraint whatever was imposed. If it had the effect to restrain Parr & Co. from using the product which they purchased to compete with other jobbers or manufacturers in the country beyond the limits of the State of Texas, this restriction was not the chief purpose or the main effect of the contract of sale, but a mere indirect and immaterial incident of it. The agreement of sale imposed no direct restriction upon competition in commerce among the states, did not constitute a restraint of that commerce and was not obnoxious to the provisions of the act of July 2, 1890."

Meyer v. *Estes*, 164 Mass., 457; 41 N. E., 683; 32 L. R. A., 283.

Electrotype plates were sold so as to give an absolute title to the buyer. A clause in the contract by which the buyer agreed not to sell them to others or to multiply them for the purpose of selling held not illegal.

Field, C. J. (686):

"We think that the evidence shows that the plates were sold to the defendants so that the title passed to them. The agreement on their part not to sell them to other parties, nor to multiply them for the purpose of selling, is in the nature of an agreement in restraint of trade. Considering the nature of the property, we are of opinion that such an agreement is reasonable, and one which ought to be enforced between the parties to it. See *Publishing Co.* v. *Smythe*, 27 Fed., 914; *Clemens* v. *Estes*, 22 Fed., 899; *Parton* v. *Prang*, 3 Cliff., 537, Fed. Cas. No. 10,784."

Crystal Ice Co. v. *San Antonio Brew. Co.*, 8 Tex. Civ. App., 1; 27 S. W., 210.

A contract between an ice manufacturer and a brewer whereby the former agreed to sell the latter all the ice he needs, the brewer not to retail ice or sell to retailers, held not in restraint of trade.

James, C. J. (211):

"The contract is not upon its face one necessarily in restraint of trade. It contains nothing which indicates that the brewing association was a manufacturer of or engaged in the pursuit of selling ice or intended entering upon the business, and a manufacturer ordinarily has the right to select his customers, and may sell his goods to a person at a reduced price, to be used by the customer and not sold by him. There is nothing pernicious in such an arrangement if the restraint is such only as affords a fair protection to the interests of the party in favor of whom it is granted, and not so large as to interfere with the interests of the public. *Pierce* v. *Woodward*, 6 Pick., 206; *Palmer* v. *Stebbins*, 3 Pick., 188. If the brewing association did not deal in ice, nor contemplate doing so, we do

not perceive any detriment arising to the public from the restriction in this contract. The agreement is innocent of any illegality, tested by itself."

Bancroft v. *Embossing Co.*, 72 N. H., 402, 57 At., 97; 64 L. R. A., 298.

A contract whereby plaintiffs gave defendants the exclusive right to manufacture and sell certain embossing machines, and covenanting that plaintiffs would not, during the existence of the contract, make, vend, or use any embossing machines of type named, nor sell or assign any letters patent relating to them, and that the contract should last for the full term for which letters patent should be granted, or, if no patent should be granted, then for the term of 20 years, was not, in consideration of the nature of the business, the limited number of customers, and their location through the various states of the country, in unreasonable restraint of trade, or violative of any principle of public policy.

Bingham, J. (101):

"It seems to us that, inasmuch as public policy requires that a man should be free to sell in the most advantageous way that he has obtained by his skill or other means, the same public policy should permit him to enter into restrictive covenants in aid of the thing sold, provided the restriction, in the judgment of the court, is not unreasonable, having regard to the subject-matter of the contract.

* * * * *

In the application of this principle, the question is whether the restraint affords more than a fair and reasonable protection to the party in whose favor it is imposed. If it does not,

the contract should be upheld. It will be noticed that the contract in this case does not restrain the plaintiffs from manufacturing and selling embossing machines of every description, as was the case in *Berlin* v. *Perry*, 71 Wis., 495, 38 N. W., 82, 5 Am. St. Rep., 236, cited by the defendant, but simply those involving the specific feature which the defendants were to manufacture and sell under the contract; and considering the nature of the business, the admitted limited number of customers, and their location throughout the various states of this country, we do not think the restriction can be held to exceed what is necessary for the protection of the purchaser, or that it violates any principle of public policy."

Twomey v. *Peoples Ice Co.*, 66 Cal., 233; 5 Pac., 158.

Contract by first party to furnish ice at a stipulated price and that other party could purchase all ice needed from first party. Held not in restraint of trade.

Schwalm v. *Holmes*, 49 Cal., 656.

A contract to sell no lime to any but one person for six months held good.

Hodge v. *Sloan*, 107 N. Y., 244; 17 N. E., 355.

A lot was sold with condition that purchaser should not sell sand from it. Held good.

Kellogg v. *Chandler*, 3 Chandler (Wis.), 133.

An agreement to store wheat provided that the lessor of the premises should not store any wheat during the continuance of the lease except under directions of the lessee, nor permit any person to

occupy the leased premises for such purposes. Held not in restraint of trade.

Howe, J. (149):

"The restraint it imposed upon trade, if any, was partial and limited; limited in every particular referred to in the books. It was limited as to persons, as to object, as to place, and as to time (though this last is not essential).

* * * * *

But the parties are said to have 'combined and agreed' not to engage in trade, and that this was clearly against public policy; and in the plea, the plaintiffs and defendants, 'together with divers other persons,' are averred to have formed themselves and entered into an association? Let this matter be understood, and we need not be frightened by the terms employed to characterize it. The agreement discloses no 'combination' and no 'association' in the sense in which the words are evidently used. It is of two parts. It creates mutual obligations, and provides mutual equivalents, as every contract, *inter partes*, does. But there is no identity of interest or of duty between the parties of the second part, no more than always exists between landlord and tenant. The warehouse men received their daily compensation, and the billers received their daily profits.

And there was no 'combination' between the parties of the second part, the warehouse men. Perhaps they must be considered to have jointly promised the party of the first part, but it is not disclosed that they have promised each other, which I understand they must have done, before they can be said to have been combined.

Besides, if the design be lawful, as the abandonment of trade in a particular place is, what matter how many combine in it?"

Lanyon v. *Garden City Sand Co.*, 223 Ill., 616; 79 N. E., 313; 9 L. R. A., N. S., 446.

A contract was made to furnish for eight years clay exclusively to certain persons engaged in marketing the product. The contractor agreed not to operate another plant on any land owned by him in the state, obligating certain experts in the preparation of the clay to operate the plant on such tract, and obligating the purchasers not to obtain clay elsewhere, to cease operating the plant owned by them, and to take a certain amount of clay per day, all of which would tend to increase the business of the respective parties. Held not violative of a statute forbidding combinations to limit the quantity of an article to be mined, produced, or sold in the state, and further not to be violative of the Sherman Act, though clearly inter-state in character.

Wilkin, J. (452):

> "The object of these statutes is to prohibit the formation of trusts and combinations and remove all obstructions in restraint of trade and free competition. It was not the purpose of either law to hinder or prohibit contracts on the part of corporations or individuals, made to foster or increase trade or business. But a contract may incidentally restrain competition or trade without violating the statutes, if its chief purpose is to promote and increase the business of those who enter into it."

Leslie v. *Lorillard*, 110 N. Y., 519; 18 N. E., 363.

An agreement by a steamship company to pay a certain sum monthly to the owner of a competing line in consideration of his discontinuing running vessels over the route and agreeing not to sell or

charter his vessels for use on it or to be in any way interested in vessels running over it. Held not in restraint of trade.

Gray, J. (366):

> "Whether competition in this particular business would be a public benefaction, or its restraint a source of prejudice, we are unable, of course, to judge. I do not think that competition is invariably a public benefaction, for it may be carried on to such a degree as to become a general evil."

Carter-Crume Co. v. *Peurrung*, 86 Fed., 439; 30 C. C. A., 174.

A contract with an independent manufacturer for the entire product of his plant held not illegal.

Lurton, J. (177):

> "If one contracts with a manufacturer for his entire product, it will, of course, restrain the producer from selling to others. But such a contract, taken by itself, is ordinarily harmless. The public are not affected."

Heimbuecher v. *Goff*, 119 Ill. App., 373.

A contract by which one corporation agreed to buy all its raw material from, and to sell all its manufactured product to, another corporation, held not in restraint of trade.

Ball, J. (379):

> "We do not regard this contract as one in restraint of trade and, therefore, illegal and void. Nor do we think it is forbidden by the anti-trust law of this state, or by the Sherman Act."

Over v. *Foundry Co.*, 37 Ind. App., 452; 77 N. E., 302.

A contract for the sale of the entire output of sash weights of a foundry at a specified price, binding the seller to withdraw a former lower price, held valid.

Roby, J. (303):

> "This contract fixes the price and terms of sale of the articles specified, and in the absence of an exception taking the case out of the general rule it cannot be ignored.
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> * * * * *
>
> It is assumed that the contract is void as against public policy as in restraint of trade. Section I of the Act of April 14, 1897 (Acts 1897, p. 160, c. 104; Burns' Ann. St. 1901, § 3312g)."

Held not under the provisions of this statute, because

> "If the act were to be construed as rendering such a contract as the one under consideration void, it would be impossible for one person to purchase the most common articles of merchandise from another, since, under the simplest principles of the law of supply and demand, every purchase 'tends' to advance the price of the commodity purchased. If so applied, the section would render void a contract tending to make bread cheaper or to reduce the cost to the consumer of any other necessity of life. Such a construction would invalidate the law, and ascribe an intention to the lawmaking body which it is impossible to believe existed.
>
> Neither is the contract void at common law. By it one party agrees to make round sash weights for another during 'the remainder of the year,' not to exceed 500 tons, which amount

the other party agrees to buy at a stipulated price.

* * * * *

The strict rule applicable to contracts, by which persons or corporations holding franchises or rights of a quasi public nature attempt to evade the corresponding duty, is not applicable to a case involving the manufacture of cast-iron window weights. The law does not permit any restraint whatever in the former class, but a contract binding the party manufacturing to sell exclusively to one person during a limited period is valid. *Trentman* v. *Wahrenburg,* 30 Ind. App., 304, 314; 65 N. E., 1057. Greenhood, Public Policy, Rules D, L. and I; illustrations 24 Am. & Eng. Ency. Law, p. 584, subd. 'E.' *Moore & H. Hardware Co.* v. *Towers Hardware Co.,* 87 Ala., 210; 6 South, 41; 13 Am. St. Rep., 25. 'Combinations between individuals or firms for the regulation of prices and of competition in business are not monopolies, and are not unlawful as in restraint of trade, so long as they are reasonable, and do not include all of a commodity or trade, or create such restrictions as to materially affect the freedom of commerce.' *Herriman* v. *Menzies,* 115 Cal., 16; 44 Pac., 660; 46 Pac., 730; 35 L. R. A., 318; 56 Am. St. Rep., 81. There is no suggestion that the price fixed was unreasonable.

These considerations lead to a reversal of the judgment."

Van Marter v. *Babcock,* 23 Barb., 633.

Plaintiff agreed to sell to the defendant all the mint oil which should be produced upon twenty-three acres of peppermint then growing, which should include and cover all the oil of peppermint the plaintiff should raise, grow or distill, or in any way produce or be interested in the production of, for two years from the

date of the contract, and the defendant agreed to take and pay for the same, at a specified price per pound. And the plaintiff agreed to discontinue his interest in the production of peppermint oil (with the above exception) until the first of March, 1849; that he would not sell, give or barter away any peppermint roots to any person whatever, until that time; that he would not distill for any other person, excepting for those who should have contracted their oil of peppermint to the defendants; nor sell, rent or give away his distillery, or the use of it, for two years; and that no peppermint roots, except two acres, etc., should be grown, or oil distilled, on his land, until the 1st of March, 1849, excepting for the production of the oil of peppermint called for by said contract. It was further stipulated that the agreement should be null and void in case the growers did not generally enter into an agreement with the defendants by the first day of June, etc. In an action against the defendants, for a breach of this contract, in refusing to receive and pay for the oil of peppermint raised by the plaintiff, on his land: Held, that the agreement was not illegal and void as being in restraint of trade, or against public policy; or under the statute against conspiracies to restrain trade; or as being part of a scheme for monopolizing the trade in peppermint oil; but that the same was valid, and capable of being enforced.

Welles, J., in speaking of the first provision of the contract, said (637):

> "It cannot be contended that there was any restriction upon the plaintiff as to the quantity of oil he was at liberty to manufacture or produce;

on the contrary, he was left at liberty to produce all he chose and where he pleased. The extent of his obligation was to sell to the defendants all he should produce, etc., within the specified time."

As to the second provision (638):

"All the rights which the first part of it secures to the plaintiff are, in the second, fully preserved. Among them, was the right to manufacture and produce all the peppermint, or the oil thereof, which he was able or chose to manufacture or produce, without restriction. He was only bound to let the defendants have it all at the price stipulated. If they refused to take it all, he would be released, and at liberty to sell it elsewhere. If they received and paid for it according to the contract, no harm would be done to any one. It is impossible to dicover that in either event, or in any aspect, there was anything like such a restraint upon the plaintiff in his business or trade, as the law prohibits."

Hadden v. *Dimmick,* 31 How. Pr., 196.

An agreement in writing was entered into between the parties in this action as follows:

"It is hereby agreed between J. W. Dimmick, and Hadden & Co., that the said J. W. Dimmick shall, for the three years next ensuing, unless this agreement shall be dissolved by Hadden & Co., on three months' notice, consign exclusively to the said Haddon & Co., all the blankets of his manufacture to be sold by them, and that the commission to be allowed Haddon & Co. for such sales shall be seven and one-half per cent., to cover the guarantee of debt and all charges (including insurance from five) to which the goods may be subject, after being received in store."

Held not in restraint of trade. Barnard, J. (226):

"The agreement was mutual—defendant agreed to deliver to plaintiffs 'all the blankets

> of his manufacture, to be sold by them.' This must be fairly construed to mean that the plaintiffs agreed to sell the blankets which defendant should deliver to them for that purpose, and the parties mutually agree upon the commission for such sales. The agreement was not in restraint of trade. No restriction is put upon the defendant; he may manufacture as largely as he will. Of course it was for the interest of both parties to manufacture and sell if a profit could me made."

It is a fair and logical conclusion from the principles and reasoning of these cases that the productions and rights of an individual may be sold with fair and reasonable conditions and restrictions as to the use and sale thereof by the purchaser, imposed by the seller, and that these limitations when not injurious to the public and beneficial to the seller will be recognized and upheld by the court. It is only when different producers combine and contract in combination that public policy is violated and the public deprived of any right or injuriously affected.

(g) A short discussion of the decisions of the Sixth Circuit is here appropriate.

The decisions of *Hartman* v. *John D. Park & Sons Co.*, 153 Fed. Rep., 24, and *Dr. Miles Medical Co.* v. *John D. Park & Sons Co.*, 164 Fed., 803, are practically the only authority for respondent. The first opinion was distinctly and directly disapproved by the Judges of the Circuit Court of Appeals of the Second Circuit, and is counter to the decisions at Circuit of Judges Colt, Thomas, Thompson, Kohlsaat, Lochren, Cochrane, La Combe and Pollock. The opinion is also irreconcilable with *Board of Trade*

v. *Christie Co.*, 198 U. S., 236. The opinions proceed upon the attempted distinction between letters patent and copyrighted articles, and trade secret articles. It is respectfully insisted that such distinction does not exist. Each right is the exclusive right to make, use and sell and prevent others from making, using or selling, except on the terms and conditions, and the pleasure of the owner. Each right is based upon discovery and origination. An invention which has been and can be kept secret is an absolute property right until disclosed or divulged, and this right can no more be taken away or impaired or the absolute control over it in any way affected by a statute than can the monopoly of letters patent or copyright. The owner of letters patent or copyright and the owner of a trade secret process or unknown formula article have precisely the same right and that is the right of exclusiveness in making, using and selling and permitting or preventing manufacture, use or sale by others, and each can concede the same rights in permitting manufacture, use or sale. Manufacturing and marketing a patent article without restriction confers unqualified right to use and sell. Exactly the same rule obtains in respect to trade secret products, and in the same way limitations in using and selling either may be prescribed and enforced. And in both cases the rights are protected upon the same principle.

Bobbs-Merrill Co. v. *Straus*, 147 Fed. Rep., 15.

Continental Paper Bag Co. v. *Eastern Paper Bag Co.*, 210 U. S., 405.

There can be no distinction in principle between property right in undisclosed discoveries and the same when patented. The property or monopoly right in a trade secret process and in an article so made under a secret formula that when marketed it has not and cannot be reproduced because of lack of knowledge of methods, ingredients, proportions and resulting combination is closely analogous to the monopoly right secured by letters patent, differing if at all only in that it is the broader right and in reality the basis of the right protected by letters patent.

See:

Press Publishing Co. v. *Munroe,* 73 F. R., 196.

Holmes v. *Hurst,* 174 U. S., 82.

Millar v. *Taylor,* 4 Burr., 2303.

Jeffreys v. *Boosey,* 4 H. L. C., 920.

Duke of Queensbury v. *Shebbare,* 2 Eden., 329.

A distinction between a secret process and an article made thereunder is attempted in the opinion and is really the underlying reason of the conclusions reached in the opinions of Judge Lurton. That a process of manufacture is one thing and the product another and different thing is freely conceded. Indeed, under the patent laws both the process of manufacture and the article itself are separately patentable. In the present instance, however, both processes and formulas are undisclosed trade secrets. The methods of making appellant's articles are each new and original and the formulas

and articles are also each new and original. Both are inventions. Each is patentable. Each is undivulged. For until the formula, that is, the ingredients, proportions and resulting combinations of each remedy are known it cannot be made. The knowledge necessary to reproduce each remedy is unknown to the world. The methods of manufacture are secret. The remedies are secret. A monopoly subsists in each and it is protectable as a monopoly. It is conceded that a trade secret process is to be protected from illegal and fraudulent use. Why should not an article made of undisclosed elements in undisclosed combination and placed in the hands of dealers for use or sale in a certain way be protected from fraudulent and forbidden use by others charged with full knowledge of the conditions imposed?

Bement v. *National Harrow Co.*, 186 U. S., 236, and *Board of Trade* v. *Christie*, 198 U. S., 236, declare that both articles protected by letters patent and trade secret articles are not within the rules of restraint of trade either at common law or the statute.

The case of *Bobbs-Merrill Co.* v. *Straus*, 139 Fed. Rep., 155; 147 Fed. Rep., 15; 210 U. S., 339, will be cited as an authority sustaining the doctrine that the privileges conferred by the copyright statutes are not sufficient to justify restrictions as to price by the publisher of copyright books when the same have reached the hands of the retailer. Such was neither the fact, nor the theory of the case. The publisher in that case

attempted to control the price of the copyright work when in the hands of the retailer by inserting a notice reading:

> "The price of this book at retail is one dollar net. No dealer is licensed to sell it at a less price, and a sale at a less price will be treated as an infringement of the copyright. The Bobbs-Merrill Company."

It was held by all of the courts that this notice was not sufficient either to operate as a license revocable upon infringement or violation of its conditions or as a contract. The book was sold to wholesale dealers by the publishers without any restrictions or conditions whatever. There was no attempt to restrict or limit the sale by the wholesaler. Such wholesaler was perfectly free to sell when or to whom, at what price and in such quantities as he chose. Therefore, the book was marketed without any conditions in the primary sale and just as in case of patented articles when once marketed without conditions, it is impossible to create a condition subsequent which will limit the use or sale, so this copyright book having once been marketed unconditionally, could not by a mere notice be restricted as to the price. To express it shortly, there was neither a valid license with conditions, nor was there a contract. Neither the Circuit Court of Appeals nor the Supreme Court had to decide, or attempt to decide, or did decide, that the copyright monopoly was insufficient to justify and legalize conditions as to price when these were properly created either in the form of a license revocable upon breach of conditions, or by a direct contract. The notice

was held to be neither a license with conditions, nor to create a contract. These decisions, when read properly, throw much light upon the rights subsisting in the writer and inventor before and after publication and it is contended by petitioner really make for petitioner instead of respondent.

In *Dr. Miles Medical Co.* v. *Menk,* U. S. Cir. Ct. New Jersey, unreported, the learned judge at Circuit (Lanning) concluded that the wholesale contracts were not consignment contracts but conditional sales, and hence the retail contracts were not conditions imposed by the manufacturer, but by wholesale dealers and that this construction operated to take the case out of the rule announced in *Jayne* v. *Loder* in the Circuit Court of Appeals. It is a plain inference from the opinion that the construction of the wholesale agency contracts as consignments or agency contracts would have resulted in sustaining the system as legal. No authority for holding the wholesale contracts conditional sales is given and it is respectfully submitted that the cases cited above on the subject of consignment contracts overwhelmingly show that such construction is unwarranted, and that the arrangement with the wholesaler is a consignment or agency contract. But plainly also, neither the language in *Jayne* v. *Loder,* of Judge Holland, in his instructions, nor of Judge Archbald in the opinion of the court, is to be limited to conditions imposed directly by the manufacturer upon his immediate purchaser. Indeed, Judge Holland expressly declares that by the maker of a proprietary medicine

conditions as to price and purchaser may be imposed upon both the wholesaler and retailer when the latter buys from the former. And in the opinion of the court, by Judge Archbald, no such limitation as is announced by Judge Lanning is even hinted at, but the language as to conditions that may be legally made by the manufacturer is unrestricted for it is said that the proprietor may shape his policy as he pleases and sell or withhold from selling as he pleases, naming the terms and conditions and fixing the prices at and upon which alone he will do so, and refusing to those who do not comply. Now, as the so-called direct contract plans were directly involved in the Jayne-Loder litigation and as it would be supererogation to say that a man could fix his own price and the conditions to himself at a sale of his own goods, these expressions must refer to prices and conditions for and by the wholesaler and retailer. And the opinion as a whole confirms this view.

The decisions of the Sixth Circuit Court of Appeals therefore stand practically alone against the strong current of authority in refusing to recognize the systems of trade contracts which is the basis of petitioner's protection as legal and valid.

And all that is said in the opinion in *Hartman* v. *Park & Sons Company* in intimation that defendant had not been shown to have sufficiently violated the system of plaintiff by the means employed to obtain the articles and by way of criticism of the sufficiency of the charges against defendant in that respect is so utterly at variance with the recent

opinion of this court in *Bitterman* v. *L. & N. R. R. Co.*, 207 U. S., 205, where it is clearly announced that any deliberate and intentional interference with contract rights by an outsider resulting in the breach is actionable, that no further comment on this aspect of the opinion is needed.

V.

BRIEF AS TO THE RIGHT TO THE RELIEF PRAYED AND EQUITY JURISDICTION.

(1) *Petitioner's rights in the plan.*

Petitioner has a property right in its system and to maintain it, and to prevent is violation by procuring the medicines by inducing breach of such contracts by fraud or persuasion on the part of outside parties, mutilating the labels and obliterating marks and directions, and then selling at cut prices medicines marketed under the system and so unlawfully obtained. Respondent is shown to have had full knowledge of the plan and is charged with deliberately and constantly obtaining the remedies by persuasion, collusion and fraud, in violation of contracts.

The things, therefore, for which petitioner seeks protection are the conservation of its good will, its method of doing business and its system of contracts. Each and all of those are property rights and protectable.

(a) *Contracts, business and business rights are protectable.*

Bitterman v. *L. & N. Ry. Co.*, 207 U. S., 205.

Hunt v. *N. Y. Cotton Exchange*, 205 U. S., 322.

Nashville, C. & St. L. Ry. v. *M'Connell*, 82 Fed., 65.

Walker v. *Cronin*, 107 Mass., 555.

Plant v. *Woods*, 176 Mass., 492; 57 N. E., 1011.

Moran v. *Dunphy*, 177 Mass., 485; 59 N. E., 125.

Heath v. *American Book Co.*, 97 F. R., 533.

West Va. Trans. Co. v. *Standard Oil Co.*, 50 W. Va., 611; 40 S. E., 591.

Doremus v. *Hennessy*, 176 Ill., 608.

Van Horn v. *Van Horn*, 52 N. J. L., 284; 20 At. Rep., 485.

Chipley v. *Atkinson*, 23 Fla., 206; 1 So., 934.

Angle v. *Chi., St. P. & M. Ry. Co.*, 151 U. S., 1.

Lucke v. *Clothing Cutters & T. Assembly*, 77 Md., 396; 26 Atl., 505.

Barr v. *Essex Trades Council*, 53 N. J. Eq., 101; 30 Atl. Rep., 881.

Flaccus v. *Smith*, 199 Pa., 128; 48 At. Rep., 894.

O'Neil v. *Behanna*, 182 Pa. St., 236; 37 At., 843.

Jersey Printing Co. v. *Cassidy*, 63 N. J. E., 759; 53 A., 230.

Quinn v. *Leathem*, L. R. (1901), App. cases, 495; 85 L. T. (N. S.), 289.

(b) The procuring or inducing by third parties of contract violation either by persuasion or fraud is a tort and is actionable, and if repeated, enjoinable.

In *Hunt* v. *N. Y. Cotton Exchange,* 205 U. S., 322, where injunction was allowed against procuring market quotations from telegraph companies in violation of their contracts, it was said (p. 337):

> "We cannot concur in the conclusion urged by appellant that this case is distinguishable in principle from *Board of Trade* v. *Christie Grain & Stock Company,* either in the right asserted or in the defense against it. Even if the cases were distinguishable, it might still be contended, that would be of no consequence in determining the jurisdictional amount of the matter in dispute. But we will consider the difference claimed to exist between the cases. In the *Christie case,* it is contended, the right asserted was 'to prevent getting at the knowledge of a trade secret or the quotations of the market surreptitiously, and using the knowledge so obtained,' and that it is insisted, was the matter in controversy. 'Here,' it is said, 'there is no violation of a duty or trust. The market quotations are not received surreptitiously. The appellant is not deriving the appellee of the protection of the law.' In the *Christie case* the quotations were gotten and published, 'in some way not disclosed' but, it was said, as the defendants did not get them from the telegraph companies authorized to distribute them, had declined to sign contracts satisfactory to the plaintiff (board of trade) and denied the plaintiff's rights altogether, it was reasonable conclusion that they got, and intended to get, their knowledge in a way which was wrongful. This, however, was not said to limit the plaintiff's right but to express a vio-

lation of it. The right was clearly defined to be, the right of the board of trade to keep the quotations to itself or communicate them to others. And this is also the right of the exchange in the case at bar. It can be violated not only by getting the quotations surreptitiously or 'in some way not disclosed,' or by getting them from a person forbidden to communicate them."

The most recent decision of the Supreme Court on the subject establishes this proposition beyond doubt.

Bitterman v. *L. & N. Ry. Co.*, 28 Sup. Ct. Rep., 91; 207 U. S., 205.

This was an attempt to restrain the interference with ticket contracts by scalpers. It was contended that to induce breach of contract was not an actionable wrong. Mr. Justice White said (97):

"We pass this question, however, because the want of merit in the contention that the case as made did not disclose the commission of a legal wrong conclusively results from a previous decision of this court. The case is *Angle* v. *Chicago, St. Paul, etc., Ry. Co.*, 151 U. S., 1, where it was held that an actionable wrong is committed by one who 'maliciously interferes in a contract between two parties and induces one of them to break that contract to the injury of the other. That this principle embraces a case like the present, that is, the carrying on of the business of purchasing and selling non-transferable reduced rate railroad tickets for profit to the injury of the railroad company issuing such tickets is, we think, clear. It is not necessary that the ingredient of actual malice in the sense of personal ill will should exist to bring this controversy within the doctrine of the *Angle case*. The wanton disregard of the rights of a carrier causing injury to it, which the business

of purchasing and selling non-transferable reduced rate tickets of necessity involved, constitute legal malice within the doctrine of the *Angle case*. We deem it unnecessary to restate the grounds upon which the ruling in the *Angle case* was rested or to trace the evolution of the principle in that case announced, because of the consideration given to the subject in the *Angle case* and the full reference to the authorities which was made in the opinion in that case.

Certain it is that the doctrine of the *Angle case* has been frequently applied in cases which involved the identical question here at issue—that is, whether a legal wrong was committed by the dealing in non-transferable reduced rate railroad excursion tickets. *Pennsylvania Railroad Co.* v. *Beekman*, 30 Wash., (D. C.), Law Rep., 715; *Ill. Central R. R. Co.* v. *Caffrey*, 128 Fed. Rep., 770; *Delaware, Lack. & West. R. R. Co.* v. *Frank*, 110 Fed. Rep., 689; *Nashville, C. & St. L. Ry. Co.* v. *McConnell*, 82 Fed. Rep., 65.

Indeed, it is shown by decisions of various state courts of last resort that the wrong occasioned by the dealing in non-transferable reduced rate railroad tickets has been deemed to be so serious as to call for express legislative prohibition correcting the evil. *Kinner* v. *Lake Shore & Mich. Southern Ry. Co.*, 69 Ohio St., 339; *Schubach* v. *McDonald*, 179 Mo., 163, and cases cited; *Samuelson* v. *State*, 95 S. W. Rep., 1012. In the case last referred to, where the subject is elaborately reviewed, the Supreme Court of Tennessee, in holding that the prohibitive statute was not unconstitutional as forbidding a lawful business and in affirming a criminal conviction for violating the statute observed (p. 1016):

'That the sale as well as the purchase of non-transferable passage tickets is a fraud upon the carrier and the public, the tendency of which

is the demoralization of rates, has been settled by the general consensus of opoinion amongst the courts.'

Concluding, as we do, that the commission of a legal wrong by the defendants was disclosed by the case as made, we are brought to consider the several contentions concerning the jurisdiction of the court and its right to afford relief.

* * * * *

The contention that, though it be admitted, for the sake of the argument, that the acts charged against the defendant 'were wrongful, tortious, or even fraudulent,' there was no right to resort to equity because there was a complete and adequate remedy at law to redress the threatened wrongs when committed is, we think, also devoid of merit. From the nature and character of the non-transferable tickets, the number of people to whom they were issued, the dealings of the defendants therein and their avowed purpose to continue such dealings in the future, the risk to result from mistakes in enforcing the forfeiture provision and the multiplicity of suits necessarily to be engendered if redress was sought at law, all establish the inadequacy of a legal remedy and the necessity for the intervention of equity. Indeed the want of foundation for the contention to the contrary is shown by the opinions in the cases which we have previously cited in considering whether a legal wrong resulted from acts of the character complained of, since in those cases it was expressly held that the consequences of the legal wrong flowing from the dealing in non-transferable tickets were of such a character as to entitle an injured complainant to redress in a court of equity."

In *National Phonograph Co.* v. *Edison-Bell Co.*

(1907), L. R. 1, Ch. 335, 98 L. T. R., 291, cited above, the Lord Chief Justice said:

> "Under the circumstances, the factors having purchased goods upon the terms, as I have already said, that they should not be sold to the defendants—because there is really no doubt that the defendants' name was on the suspended list; the action of the defendants shows that it was, and that they knew it—the defendants, by fraud, induced the factors to sell instruments to them. Now I pause to say that it is, to my mind, a practical commentary on what I have said that the competitors in trade know that they cannot get these goods, so to speak, openly without going to the defendants' agents openly. They want them for the purposes of competition, and they adopt fraudulent means to get them. Now it seems to me that if such fraudulent action has caused injury to the plaintiffs' trade, or is likely to cause injury to the plaintiffs' trade an injunction ought, in my opinion, to be granted to put a stop to such a practice, and, if damage is proved, then there ought to be an inquiry as to damages."

Lord Justice Rigby said:

> "Upon these grounds I think that it was an actionable wrong that the defendant, by deceit, induced the factors to act contrary to the duty which they contractually owed to the plaintiffs, and that this action will lie."

Lord Justice Kennedy said:

> "By intentional misrepresentation the defendant company, through their agents or servants, procured from the factors goods of the plaintiffs' manufacture which the factors would not have parted with if they had known that the persons with whom they were dealing were agents or servants of a firm included in the sus-

pended list. There has been, in a sense, a sale contrary to the terms and the intention of the factors' agreement. Then comes the question, did such a transaction constitute, on the part of the factors, in each case an actionable violation of their contract with the plaintiffs, which I assume to be valid in point of law? I do not think it did. The factors did not know, or have reason to suppose that they were selling to the defendants; on the contrary, they were intentionally misled by Hughes and Leach into the belief that they were selling to independent retail dealers, who had their own places of business and were in no way connected with the defendants. The names given by Hughes and Leach were not names on the suspended list. It seems to me that a sale honestly made by a factor under these circumstances ought not, according to the proper interpretation of the agreement, to be held to be a sale to a person on the suspended list, and, as such constituting a breach of the agreement. The defendants' counsel contended that, if this be so—if the plaintiffs could not successfully sue the factors for damages or justly place him on the suspended list under the seventh condition—the plaintiffs' case at once falls, because (they argue) the defendants' stratagem, however reprehensible, did not produce a violation by the factors of the contracts with the plaintiffs. I think that this is too narrow a view. I am certainly disposed to hold that if A, who knows that B, the producer of an article, has stipulated in selling it to C, the factor, that he shall not resell it to A, procures by an intentional misrepresentation to C a sale to himself, he has committed towards B an actionable wrong (provided that B can prove he has been thereby damaged), although, in the particular circumstances B may have no cause of action against C in respect of the transaction."

(c) The inducing of contract violation is actionable.

Angle v. *Ry. Co.*, 151 U. S., 1.
Glamorgan Coal Co., Ltd., v. *South Wales Miners Federation* (1903), 1 K. B., 118; 2 K. B., 545; 89 L. T. (N. S.), 393.
West Virginia Transportation Co. v. *Standard Oil Co.*, 50 W. Va., 611; 40 S. E., 591.
Walker v. *Cronin*, 107 Mass., 555.
Chipley v. *Atkinson*, 23 Fla., 206; 1 So., 934.
Benton v. *Pratt*, 2 Wend., 385.
Rice v. *Manley*, 66 N. Y., 82.
Lumley v. *Gye*, 2 El. & Bl., 216.
Plant v. *Woods*, 176 Mass., 492; 57 N. E., 1011.
Van Horn v. *Van Horn*, 52 N. J. Law, 284; 20 Atl., 485.
Bowen v. *Hall*, 6 Q. B. D., 333; 44 L. T., 75.
Cattle v. *Attockston Water Works Co.*, L. R., 10 Q. B., 453, 458, 33 L. T., 475.
Heath v. *Am. Book Co.*, 97 Fed., 533.
Hartman v. *Platt*, 142 Fed., 606.

(d) Repeated interference with contract rights is enjoinable.

Nashville, etc., R. R. Co. v. *M'Connell*, 82 F. R., 65.
Board of Trade v. *Christie Co.*, 198 U. S., 236.
Exchange Telegraph Co. v. *Central News* (1897), 2 Ch., 48; 76 L. T., 591.
Exchange Tel. Co. v. *Gregory* (1896), 1 Q. B., 147; 74 L. T., 83.

Kinner v. *L. S. & M. S. Ry. Co.*, 69 Oh. St., 339; 69 N. E., 614.

Schubach v. *McDonald*, 179 Mo., 163; 78 S. W., 1020.

American Law Book Co. v. *Ed. Thompson Co.*, 84 N. Y. S., 225.

Penna. R. R. Co. v. *Beekman*, 30 Wash. L. Rep., 715.

L. & N. R. R. v. *Bitterman*, 128 Fed. Rep., 176; 144 Fed., 34; 207 U. S., 205.

Fleckenstein Bros. Co. v. *Fleckenstein*, 66 N. J. Eq., 252; 57 Atl. Rep., 1025.

Illinois Central R. R. Co. v. *Caffrey*, 128 Rep., 770.

Sperry & Hutchinson Co. v. *Mechanics Clothing Co.*, 128 Fed. Rep., 800, 1015.

Sperry & Hutchinson Co. v. *Brady*, 134 Fed., 691.

Sperry & Hutchinson Co. v. *Temple*, 137 Fed. Rep., 992.

Sperry & Hutchinson Co. v. *Weber*, 161 Fed., 219.

National Telephone Co. v. *Western Union Tel. Co.*, 119 Fed. Rep., 294.

Flaccus v. *Smith*, 199 Pa. St., 128; 48 Atl. Rep., 794.

Carroll v. *Chesapeake & Ohio Coal Agency*, 124 Fed., 305, 312.

Garst v. *Charles*, 187 Mass., 144; 72 N. E., 839.

Board of Trade v. *Cella Co.*, 145 Fed., 28.

Board of Trade v. *McDearmott*, 143 Fed., 188.

Knudsen v. *Benn,* 123 Fed., 636.

Martin v. *McFall,* 65 N. J. Eq., 91; 55 At., 465.

Wells & Richardson Co. v. *Abraham,* 146 Fed. Rep., 190; affid. Cir. Ct. App., 2nd Circuit, Nov. 20, 1906.

Hunt v. *N. Y. Cotton Ex.,* 205 U. S., 322.

Jones v. *E. VanWinkle Gin Wks.,* 17 L. R. A. (N. S.), 848; 131 Ga., 336; 62 S. E., 236.

Reynolds v. *Davis,* 17 L. R. A. (N. S.), 162; 84 N. E., 457; 198 Mass., 294.

Beekman v. *Marsters,* 195 Mass., 205; 80 N. E., 817; 11 L. R. A. (N. S.), 201.

Iron Moulders Union v. *Allis-Chalmers Co.,* 166 Fed. Rep., 45.

(2) *Equity has jurisdiction because of the inadequacy of the remedy at law.*

Under the circumstances the relief at law is plainly inadequate. Appellee, under the conceded averments of the bill of complaint deceives, misrepresents and fraudulently combines and colludes with wholesale agents and retail sellers of complainant's remedies. Where deception and fraud are used the wholesale agent and the retailer are blameless. Where combination and collusion are employed the sale is concealed. In either case petitioner is helpless. A long investigation must follow in order to locate the source. If this is found and the dealer stopped the respondent simply hunts up another agent or dealer. With numerous wholesale agents and thousands of retail druggists it is impossible

to prevent an active and unscrupulous dealer from getting the forbidden article. Moreover, it is impossible to measure in a legal way the damages consequent from continuous infractions. Innumerable suits will be required and the system fail. Practically all of the cases cited above were suits in equity.

Attention is especially called to

Railway Co. v. *McConnell,* 82 Fed. Rep., 65.

Board of Trade v. *Christie Co.,* 198 U. S., 236.

Hunt v. *N. Y. Cotton Exchange,* 205 U. S., 322, and

Bitterman v. *L. & N. Ry. Co.,* 207 U. S., 205, where the question of equitable cognizance is elaborately discussed and jurisdiction sustained.

In *Railway Co.* v. *McConnell,* 82 Fed. Rep., 65, it was said (p. 80):

> "The case simply calls for an application of the injunctive process to prevent complainants' business from fraud and obstruction, and a business is just as much the subject of suit, with a right to protection, as ordinary forms of tangible real and personal property. Whatever doubt may have been expressed at any time, the cases are now agreed upon this proposition. It needs no extended statement to make it manifest that the right to carry on a business without interference, without fraud, and without obstruction, is one of the most valuable of all rights. Indeed, in the commercial world the right of greatest value is the right to freely carry on a lawful business without unlawful interruption. It is a substantial right, which may be protected by any remedy known to the court as fully as a constitutional or statutory right, and as fully as a right in the ordinary forms of property. In

Scott v. *Donald*, 165 U. S., 108, 17 Sup. Ct., 262, already referred to, it was held by the Supreme Court of the United States that the constitutional right of the complainant to import for his use, from time to time, ale, wines, and liquors, the products of other states, might be protected by injunction from repeated invasion by seizure of goods under color of an unconstitutional statute of the State of South Carolina. The ruling was based on the ground of avoiding a multiplicity of suits, and the want af adequate remedy at law. In *Arthur* v. *Oakes*, 11 C. C. A., 209, 63 Fed., 310, it was held (Mr. Justice Harlan delivering the opinion of the court) that, while a contract for personal services could not be enforced by injunction, nevertheless, when employes quitting the service of their employer combine to obstruct the business of such employer by force, threats, or other unlawful methods, such as inducing other employes to quit, and deterring others from taking the places of those leaving, such an injury might be prevented by injunction, and the right to carry on the business without molestation protected. This, too, would be a novel use of the injunction. In *Davis* v. *Zimmerman*, already referred to, it was expressly adjudged that the busines of a person, if lawfully conducted, is a property right, and may be protected by injunction from injury or destruction."

In *Bitterman* v. *Railway Co.*, 207 U. S., 205, it was said by Mr. Justice White, speaking for the court (p. 225):

"The contention that, though it be admitted, for the sake of the argument, that the acts charged against the defendant 'were wrongful, tortious or even fraudulent, there was no right to resort to equity because there was a complete and adequate remedy at law to redress the threatened wrongs when committed is, we think, also devoid of merit. From the nature and char-

acter of the non-transferable tickets, the number of people to whom they were issued, the dealings of the defendants therein and their avowed purpose to continue such dealings in the future, the risk to result from mistakes in enforcing the forfeiture provision and the multiplicity of suits necessarily to be engendered if redress was sought at law, all establish the inadequacy of a legal remedy and the necessity for the intervention of equity. Indeed the want of foundation for the contention to the contrary is shown by the opinions in the cases which we have previously cited in considering whether a legal wrong resulted from acts of the character complained of, since in those cases it was expressly held that the consequences of the legal wrong flowing from the dealing in non-transferable tickets were of such a character as to entitle an injured complainant to redress in a court of equity.

There is an opinion of the Supreme Court of New York (not the court of last resort) which would seem to express contrary views, *New York Central & H. R. R. R. Co.* v. *Reeves*, 85 N. Y. Supp., 28, but the reasoning there relied on, in our opinion, is inconclusive.

The proposition that the bill was multifarious because of the misjoinder of parties and causes of action was not assigned as error in the Circuit Court of Appeals, and, therefore, might well be held not to be open. But passing that view, we hold the objection to be untenable. The acts complained of as to each defendant were of a like character, their operation and effect upon the rights of the complainant were identical, the relief sought against each defendant was the same, and the defenses which might be interposed were common to each defendant and involved like legal questions. Under these conditions the case is brought within the principle laid down in *Hale* v. *Allinson*, 188 U. S., 56, 77.

As we have stated, the Circuit Court granted

a preliminary injunction restraining the defendants from illegally dealing in tickets issued on account of the United Confederate Veterans' Reunion, and before final hearing granted a second injunction restraining such dealing in like tickets issued for the approaching Mardi Gras festival. By the final decree these injunctions were perpetuated, the court declining to grant the relief sought by the complainant in relation to non-transferable tickets to be issued for the future, without prejudice, however, to the right of the complainant to seek relief by independent proceedings on each occasion when it might issue such non-transferable tickets. The Circuit Court of Appeals decided that error had been committed in refusing to grant an injunction against dealing in non-transferable tickets to be issued in the future, and directed that the decree below be enlarged in that particular. It is insisted that the Circuit Court of Appeals erred in awarding an injunction as to dealings 'in non-transferable tickets that may be hereafter issued * * * since it thereby undertook to promulgate' a rule applicable to conditions and circumstances which have not yet arisen, and to prohibit 'the petitioners from dealing in tickets not *in esse* * * * and is, therefore, violative of the most fundamental principles of our government.' But when the broad nature of this proposition is considered it but denies that there is power in a court of equity in any case to afford effective relief by injunction. Certain is it that every injunction in the nature of things contemplates the enforcement as against the party enjoined of a rule of conduct for the future as to the wrong to which the injunction relates. Take the case of trespasses upon land where the elements entitling to equitable relief exist. See *Slater* v. *Gunn*, 170 Massachusetts, 509, and cases cited. It may not be doubted that the authority of a court would extend, not only to restraining a

particular imminent trespass, but also to prohibiting like acts for all future time. The power exerted by the court below which is complained of was in nowise different. The bill averred the custom of the complainant at frequently occurring periods to issue reduced rate non-transferable tickets for fairs, conventions, etc., charged a course of illegal dealing in such non-transferable tickets by the defendants, and sought to protect its right to issue such tickets by preventing unlawful dealings in them. The defendants in effect not only admitted the unlawful course of dealing as to particular tickets then outstanding, but expressly avowed that they possessed the right, and that it was their intention to carry on the business as to all future issues of a similar character of tickets. The action of the Circuit Court of Appeals, therefore, in causing the injunction to apply not only to the illegal dealings as to the then outstanding tickets, but to like dealings as to similar tickets which might be issued in the future, was but the exertion by the court of its power to restrain the continued commission against the rights of the complainant in the future of a definite character of acts adjudged to be wrongful. Indeed, in view of the state of the record, the inadequacy of the relief afforded by the decre as entered in the Circuit Court is, we think, manifest on its face. The necessary predicate of the decree was the illegal nature of the dealings by the defendants in the outstanding tickets, and the fact that such dealings if allowed would seriously impair the right of the complainant in the future to issue the tickets. Doubtless, for this reason the decree was made without prejudice to the right of the complainant to apply for relief as to future issues of tickets by independent proceedings whenever on other occasions it was determined to issue non-transferable tickets. But this was to deny adequate relief, since it subjected the

complainant to the necessity, as a preliminary to the exercise of the right to issue tickets, to begin a new suit with the object of restraining the defendants from the commission in the future of acts identical with those which the court had already adjudged to be wrongful and violative of the rights of the complainant.

In *Scott* v. *Donald,* 165 U. S., 107, on holding a particular seizure of liquor under the South Carolina dispensary law to be invalid, an injunction was sustained, not only addressed to the seizure in controversy, but which also operated to restrain like seizures of liquors in the future, and the exertion of the same character of power by a court of equity was upheld in the cases of *Donovan* v. *Pennsylvania Company,* 199 U. S., 279, and *Swift* v. *United States,* 196 U. S., 375."

These decisions are so directly applicable to the admitted situation and so controlling that no argument or discussion is needed. It is, therefore, respectfully asked that the decree of the Circuit Court of Appeals be reversed with appropriate directions.

Respectfully submitted,

FRANK F. REED and
EDWARD S. ROGERS,
Solicitors for Petitioner.

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Supreme Court of the United States

OCTOBER TERM, 1910.

DR. MILES MEDICAL COMPANY,
Petitioner,

No. 72. *vs.*

JOHN D. PARK & SONS COMPANY,
Respondent.

Brief for Respondent.

I.

STATEMENT OF THE CASE.

This cause comes to this court on writ of certiorari to the United States Circuit Court of Appeals for the Sixth Circuit. The bill of complaint was filed originally in the Circuit Court of the United States for the Sixth Judicial and Eastern District of Kentucky, at its October term, A. D. 1907. General and special demurrers to the bill were sustained upon the authority of the opinion in the case of *John D. Park & Sons Co.* v. *Hartman*, 153 Fed., 24. Thereupon the petitioner elected to stand by its bill

of complaint and the court dismissed the said bill of complaint for want of equity. An appeal to the Circuit Court of Appeals having been perfected, the dominant and controlling question in this court was whether the owner and sole manufacturer of proprietary medicines, who had conserved the ingredients, proportions and process of manufacture as trade secrets, had adopted trade names, trade-marks and trade packages to distinguish its products in their sale, had advertised and exploited them throughout the United States and to a certain extent in foreign territory, had included in its advertisements and in the marking of its packages their desired retail prices and had directed the prospective purchaser to the appropriate retail store, could, by reason of any or all of the facts above recited, control the prices of its products and the terms and conditions upon which the same might be sold in such a manner as to effect a complete suppression of all competition in such articles from the hands of the manufacturer to those of the consumer. This question, stated otherwise, is whether the facts above stated are such as to make an exception to the general common law and statutory rules against restraints of trade.

As a secondary question, the Circuit Court of Appeals considered the exact nature of one link in the system whereby such complete suppression of competition was sought to be obtained, to-wit: whether the contract between the petitioner and the wholesale dealers or jobbers is one of sale or one of bailment.

Upon the hearing of this appeal, Judge Lurton delivering the opinion and Judges Severens and Richards concurring, the court held that the contract between the petitioner and the wholesale drug dealers or jobbers was one of sale, and further that whether they were contracts

of sale or bailment, the system of restraint attempted by the petitioner herein violated both the common law and statutory inhibition against restraint of trade. Accordingly the decree sustaining the demurrer interposed by the respondent was affirmed. (*Record*, p. 33.)

Thereupon a petition for certiorari was filed in this court and, the respondent not appearing, was granted.

The decision of the foregoing questions, should such control be declared legal and binding upon the parties consenting thereto, involves, in the determination of the rights of the respondent herein, a collateral question as to whether a dealer who has neither by contract nor in any other manner consented or assented to such control, but who is advised of the restrictive system under which the manufacturer is attempting to place its products in the hands of the consumer, can be enjoined from purchasing the products of such manufacturer from the owners thereof and from reselling such products in such unrestricted manner as best suits the respondent and its customers.

II.

THE CASE PRESENTED BY THE BILL.

The primary allegations of the bill of complaint filed by the petitioner are that the petitioner had purchased the exclusive rights in the inventions or discoveries of certain preparations which it manufactures and sells under trade names; that said preparations are compounded from secret formulas and prepared under secret processes; that said preparations are sold under trademarks and names and in distinctive packages. (*Record*, p. 3.)

The bill further avers that said preparations have been extensively advertised through a variety of advertising mediums; that said advertisements have emphasized the trade-marks and names and distinctive packages and have included the price which the manufacturer intended that the consumer should pay to the retail dealer, to whom the consumer was directed. (*Record*, p. 5.)

The bill then avers that a large and lucrative trade had been established in the petitioner's preparations "*which embraces the entire territory of the United States and exists in a smaller degree in foreign countries;*" that it has been and is the uniform custom of the petitioner to *sell* such preparations to jobbers and wholesale druggists who, in turn, *sell* the same to retail druggists, who, in turn, *sell* the same to the ultimate consumer. (*Record*, p. 6.)

The bill then avers that in order to prevent the cutting of prices by the wholesale and retail dealers, the petitioner has adopted and put in force a system of contracts controlling the sale and re-sales of its preparations. The contracts are set forth in full in the bill (*Record*, pp. 8-12) and the scheme thereby disclosed is, briefly, that the wholesale druggists to whom the preparations are "consigned" (?) are required to execute contracts binding themselves to sell among those retail dealers only who are authorized by the petitioner to purchase the preparations, and at not less than certain fixed prices; and that the retail dealers, to secure the authorization entitling them to purchase from the wholesale dealer, must contract with the petitioner to sell the preparations of its manufacture to the consumer only and at certain fixed prices.

As a means of enforcing this system, lists of contracting retail dealers are furnished to the wholesale dealers;

each package has its identifying serial number; each sale must be reported by the wholesale dealer to the petitioner semi-monthly or on demand, together with the name of the purchaser. (*Record*, p. 9.) It is further alleged that *this system of wholesale and retail contracts has been generally adopted by the wholesale and retail drug trade throughout the United States and that it is now in full force and effect.* The petitioner avers that *this system has been adopted for the sole purpose of preventing the cutting of prices of its preparations* which "cutting," it is alleged, resulted in damage to the petitioner's business. Continuing, the petitioner avers that it has placed upon the packages in which its preparations are marketed certain historical, instructive and directive matter which it is asserted should go with the preparations intact, and that upon the same the serial identification numbers are placed, for the purpose of tracing the goods and enforcing the scheme above outlined for preventing the sale of said goods at competitive prices.

The bill then avers that the respondent, being fully advised of the foregoing facts, and who, because of its not having entered into any contract with the petitioner, is not, it is alleged, entitled to purchase and deal in preparations manufactured by the petitioner, has unlawfully and fraudulently obtained the petitioner's preparations, and has induced dealers to violate their contracts with the petitioner in selling them to the respondent; that having obtained said preparations, it advertises and sells the same at prices less than those fixed by the petitioner; that in so doing, it erases the identification serial numbers, thereby altering and defacing the labels and printed instructions on the packages, and that it proposes to continue this course. All of this is alleged to be in violation of the rights of the petitioner. (*Record*, pp. 15-18.)

The prayers for relief are that the respondent be enjoined from dealing at all in the preparations manufactured by the petitioner and incidentally that it be restrained from altering the labels upon the goods which it purchases, and from selling at all with mutilated labels the preparations manufactured by the petitioner.

III.

THE QUESTIONS PRESENTED BY THE DEMURRERS.

The respondent, the original defendant, filed a general demurrer to the entire bill upon the ground that the complainant therein had not set forth a cause of action entitling it to the relief sought in a Court of Equity; a special demurrer was also filed to so much of the bill as sought to enjoin the defendant from defacing the printed matter upon the preparations manufactured by the complainant which had been purchased by the defendant, upon the ground that the complainant by its bill had not stated a cause entitling it to this special relief. (*Record*, pp. 22-23.)

The questions presented in this court, as in the Court of Appeals, are the questions presented to the court of original trial; to-wit, the sufficiency of the bill as tested by these demurrers.

Considering the special demurrer first, for the purpose of the elimination, the question presented is whether the petitioner has any cause of action because the respondent alters or defaces the labels or printed matter upon the packages which it purchases and owns. The petitioner does not claim that the respondent is imitating the petitioner's trade-marks or packages, or uses them

upon preparations not manufactured by the petitioner. Apparently the petitioner claims the right to insist upon the preservation of the merchandise in its original dress, although by successive sales it might have passed into the hands of the fourth or fifth sub-vendee from the purchaser of the original sale.

In answer to this claim the respondent contends that if it has the right to purchase the preparations, it has a right to use, deface or destroy them, as it pleases. If it has no right to purchase the goods, then the injunction against such purchase, the primary relief sought in this bill, is all that the petitioner is entitled to. The alleged mutilations form no part of the primary cause of action, and of themselves present no ground for separate relief.

The primary cause of action is based solely on the claim that the secret character of the process, receipts and formulas, together with the exploitation and sale of the preparations manufactured thereunder under trademark, trade name and distinctive dress, give to the petitioner the right to create and maintain a monopoly over and to prevent competition in the trade in the preparations so manufactured and marketed, and after their sale by it, in all respects similar to, and in some respects more extensive than the rights of the owner of a patent or copyright in maintaining a monopoly and suppressing competition in the articles manufactured or produced under such patent or copyright.

The petitioner expressly disclaims any right under patent or copyright laws of the United States.

The petitioner avers that its preparations have been, and are being sold and offered for sale to the general public.

The petitioner avers that the entire object of the system of sales, serial identification numbers, lists and cards

is to prevent sub-sales of preparations manufactured and sold by it, at competitive prices.

The petitioner avers that it has not only attempted, but that it has succeeded in establishing and is now maintaining a system which effectually suppresses competition, from the manufacturer to the consumer, in the sales of articles of general commerce.

The respondent contends that the suppression of competition in an article of general commerce, not manufactured or sold under patent or copyright, is illegal. The demurrer is based upon the principle that a *Court of Equity will refuse any relief if the result of granting the same would be to aid a party in carrying out an unlawful plan or purpose.*

The theory of the petitioner is that the secret character of its formulas and the trade name, trade-marks and distinctive dress under which the articles of its manufacture are marketed, give it a right to suppress competition in the sales of its preparation after it has lost title to the same, even if such suppression would be unlawful in the absence of such secret formulas and trade-marks.

The questions raised by the demurrers, which, as has been shown, are the questions presented to this court, are therefore:

(1) Whether the petitioner has any peculiar, special or exclusive right in the articles manufactured by it, warranting it to carry out, with reference to their sale, a plan or scheme which would otherwise be invalid and illegal.

(2) Whether the plan of the scheme disclosed in the bill, is, in the absence of special right, valid, or illegal and unlawful.

(3) Whether upon the allegations of the bill, the petitioner is entitled to relief against the respondent, who

has not by contract or otherwise assented or consented to the petitioner's scheme.

(4) Whether the petitioner has any cause of complaint because the respondent defaces or mutilates the labels or printed matter upon the packages which it purchases and owns.

IV.

SOME FUNDAMENTAL DISTINCTIONS.

Since the basic position of the petitioner is that in principle there is no distinction between the monopolies granted under patents and copyrights and the "natural monopoly" of the owner of trade secrets, and that no distinction exists in the methods under which articles manufactured under patents, copyrights or trade secrets may lawfully be marketed, it becomes necessary to indicate what counsel for the respondent deem fundamental distinctions in the primary rights and in the lawful exercise of any secondary rights incident to each of such species of property.

First. The Rights Granted by the Acts of the Congress of the United States to the Owners of Patents and Copyrights.

Although there are wide differences between the rights granted by the patent and those granted by the copyright statutes of the United States, these differences are of a passing effect upon the questions now under consideration. Counsel for petitioner do not base their claim upon these distinctions, but rely upon the similarities of the two kinds of statutes. Therefore they are considered in this discussion as if no differences existed.

A. The Patent and Copyright Laws of the United States Grant New Rights that do not Exist at Common Law and Which Can be Acquired Only by Compliance with the Conditions of These Laws.

At common law, authors and inventors had certain monopolistic rights in the products of their skill. These rights expired with publication, and thereafter the author or inventor shared his rights with all the world. His "natural monopoly" had ceased. Before publication, the courts afforded him protection against the discovery and publication or use of his invention or concept by unlawful means. The law permitted a certain private or limited use before publication and protected the inventor or author against breaches of restrictions which he might place upon such private, limited use. Whatever monopolistic rights might have existed before publication disappeared entirely whenever the invention or concept was offered to the public.

Wheaton v. *Peters,* 8 Peters, 591, at 657:

> "An author at common law has a property in his industry and may obtain redress against any one who deprives him of it or, by improperly obtaining a copy, endeavors to realize a profit by its publication. * * * But this is a very different right from that which asserts a perpetual and exclusive property in the future publication of the work after the author shall have published it to the world."

Wilson v. *Rousseau,* 4 How., 646 at 674:

> "At common law * * * the right of property of an inventor to his invention or discovery passed from him as soon as it went into public use with his consent."

Werckmeister v. *American Lith. Co.*, 134 Fed., 321:

> "The right to make copies before publication and the right of first publication are common law rights. The right to multiply copies aftter publication to the exclusion of others is the creature of the statutes."

See also:

In re Brosnahan, Jr., 18 Fed., 63, at 65.
Palmer v. *DeWitt*, 47 N. Y., 532, at 536.
Press Publishing Co. v. *Monroe*, 73 Fed., 196.
Henry v. *Smythe*, 38 Fed., 914.

When the common law right is lost by publication and the author has not obtained a statutory monopoly, he has lost the right in any way to control the subsequent trade in his work. Where an author whose work had been published without copyright, sought to regulate the subsequent trade therein, his claim was denied on the ground that such a right could only be obtained under the copyright statutes.

Kipling v. *Fenno*, 106 Fed., 692.

In the application of the above principle to the use of a trade secret, we assert the fundamental distinction at issue herein.

It is submitted that the petitioner has a "natural monopoly" in the use of its trade secrets, to-wit: its recipe and process, so long as they are not given to the public and so long as they remain undiscovered by fair means. It will be protected in this monopoly against a publication or sale by those to whom they are communicated privately, confidentially and for restricted use. It has no special property in either the process or private formula. They are of value only so long as it can pro-

tect its secrets. If discovered by fair means, any one has the right to use them.

These rights, with the limitations thereon, are conceded to the petitioner. But they are foreign to the issues. There is no allegation of unfair discovery or use of the trade secrets. The allegations are directed to dealings in the products created by the use of the secrets, exclusively. The rules applicable to the secrets themselves have no bearing upon that totally different species of property—the commercial product created by their use.

If the manufacturer markets these products, the sale of the articles makes them a subject of general commerce, so that if the term "publication" is equivalent to "giving to the public use," these articles have been published and are, from the moment of sale, free from any restrictions which their manufacturer might desire to impose. In brief, the "natural monopoly" of the owner of trade secrets is in the use of the secrets so long as they remain such; the law has never sanctioned monopoly or restraints of trade in the articles manufactured thereunder.

These distinctions were affirmed by both the United States Circuit Court and the United States Circuit Court of Appeals in *Hartman* v. *John D. Park & Sons Co.*, the case upon which the decisions of the courts below in this cause rested.

> "An inventor or author who has not obtained a patent or copyright has before publication a valuable right of another kind. He has the right to keep the knowledge of what he has invented or composed to himself. No one can lawfully obtain it from him without his consent. So likewise, the owner of a secret process has the right to maintain the secrecy of his process. Both such an inventor or author and such owner have a right to sell their knowledge and their right

to keep it a secret to another and vest him with the same rights in regard thereto as he has. They have the right to impart the knowledge to others with restrictions as to the use they shall make of it and to have them make no greater use of it." (*Hartman* v. *John D. Park & Sons Co.*, 145 Fed., 358, at 361.)

"The owner of a secret process does not have the right to sell articles embodying said process outright and at the same time in this way retain control over the subsequent trade in such articles by his vendees and sub-vendees. He can communicate the knowledge of his secret to others and limit the use they are to make of it and compel them to make no greater use thereof. If they make a greater use thereof such conduct on their part is no invasion of an exclusive right on his part, but a breach of his confidence. If he sells the articles embodying the secret to others outright he can at the same time retain no greater control over the subsequent trade therein by the vendees and sub-vendees than can the vendor any other personal property, not a thing pattened or copyrighted, who sells it outright can at the same time retain." (*Id.*, p. 369.)

Judge Lurton, delivering the opinion of the Court of Appeals, said:

"But it does not follow, that because a secret process or formula for a medicine or beverage will be protected against betrayal by employes or those to whom it has been communicated in confidence under a contract for a restricted use, that a system of contracts for the control of all sales and sub-sales of the device, medicine or beverage when once made will be outside of the rules in restraint of trade simply because the product of such secret process or formula. We

have here to deal not with contracts which relate to the secret formula itself, or the right to use a trade name or dress as in *Fowle* v. *Park,* 131 U. S., 88, but with the preparation when made by the owners of the process. The preparation when ready for the market and the formula are two separate and distinct things and may have distinct ownerships. Contracts in respect of a restricted use of the formula are not within the rule against restraint because of the character of the property right in such a secret. There can be no unrestricted use, before discovery by fair means, to which the owner does not consent, and then only at the expense of the destruction of its commercial value as a secret. But this is not the case with contracts which affect only traffic in the manufactured product of the secret formula. Freedom of traffic in that is consistent with its value and does not involve exposures of the formula." (*John D. Park & Sons Co.* v. *Hartman,* 153 Fed., 24, at 31, 32.)

The contention of the petitioner being that the exclusive right of a patentee to make, use and vend his invention and the exclusive right of the owner of a copyright to print, publish and sell his production are not the creation of new rights by the Federal Statutes, but a preservation of the rights after publication which the author or inventor had at common law before publication, it becomes expedient to determine the exact nature of the rights granted under the patent and copyright laws.

That the position of the petitioner as a general proposition is not tenable is sufficiently indicated by the preceding definition of its common law rights. Counsel for the petitioner contend that the conceded common law right to place restriction upon the use of the secret invention or concept before publication, and before discovery

by fair means, involves, as a necessary incident thereto, a common law right to place restrictions upon the commerce in the articles manufactured thereunder so long as the secret remains unpublished and undiscovered. The plan or system which the petitioner has established, and for whose enforcement it seeks the aid of the courts in this cause, is precisely the monopoly and the complete restraint of trade in its product which the owner of a patent or copyright has a right to establish.

The respondent submits that if it can be shown that this right of the patentee or of an owner of a copyright is a right *created* by the Federal Statutes, and not a common law right perpetuated therein, the claim of the petitioner to a common law right to exercise this control is without foundation.

In the case of

Wheaton v. *Peters,* 8 Peters, 591,

this question was fully considered and decided. Mr. Paine and Mr. Webster contended for the proposition of the petitioner herein. The court at page 675 said:

> "An author at common law has a property in his manuscript and may obtain redress against anyone who deprives him of it or by improperly obtaining a copy endeavors to realize a profit by its publication. * * * But this is a very different right from that which asserts a perpetual and exclusive property in the future publication of the work after the author shall have published it to the world. * * *
>
> "In what respect does the right of an author differ from that of an individual who has invented a most useful and valuable machine? * * *
>
> "The result of their labors may be equally beneficial to society * * * and yet it has

never been pretended that the latter could hold, by the common law, any property in his invention after he shall have sold it publicly.

"That every man is entitled to the fruits of his own labor must be admitted, but he can enjoy them only, except by statutory provision, under the rules of property which regulate society, and which define the rights of things in general. * * *

"In the eighth section of the first article of the Constitution of the United States it is declared that Congress shall have the power to promote the progress of science and useful arts by securing, for limited times, to authors and inventors the exclusive right to their respective writings and discoveries. * * *

"The word *secure* as used in the Constitution could not be the protection of an acknowledged legal right. It refers to inventors as well as authors, and it has never been pretended by any one, either in this country or in England, that an inventor has a perpetual right at common law to sell the thing invented.

"And if the word *secure* is used in the Constitution in reference to a future right, was it not so used in the Act of Congress? * * *

"That Congress in passing the Act of 1790 did not legislate in reference to existing rights appears clear. * * * If the exclusive right existed at common law and Congress was about to adopt legislative provisions for its protection would they have used this language? Could they have deemed it necessary to vest a right already vested? Such a presumption is refuted by the words above quoted.

"Congress then, by this Act, instead of sanctioning an existing right * * * created it. * * *

"This right, as has been shown, does not exist in common law—it originated, if at all, under the Acts of Congress. No one can deny that when the legislature are about to vest an exclusive right in an author or inventor they have the power to prescribe the conditions on which such right shall be enjoyed, and that no one can avail himself of such right who does not substantially comply with the requisitions of the law.

"This principle is familiar as it regards patent rights and it is the same in relation to copyrights."

To the same effect are

Wilson v. *Rousseau*, 4 How., 646, at 674.
Gaylor v. *Wilder*, 10 How., 477.
2 Parson on Contracts, 7th Ed., at p. 303; 331.
In re Brosnahan, Jr., 18 Fed., 62, at 64.
Lata v. *Shawk*, Fed. Cases, No. 8116.
American, etc., Co. v. American Tool, etc., Co., Fed.Cases, No. 302.
Dudley v. *Mayhew*, 3 N. Y., 9.

Soo too, Judge Cochran said:

"The statutes as to patents and copyrights in conferring upon an inventor or author the exclusive right to make, use and sell articles embodying his invention or authorship create in him a new right, and do not extend, protect, continue or prolong a previously existing right." (*Hartman* v. *John D. Park & Sons Co.*, 145 Fed., 358, at 361.)

B. THE PATENT AND COPYRIGHT LAWS OF THE UNITED STATES GRANT TO THE INVENTOR AND AUTHOR AN EXCLUSIVE MONOPOLY IN HIS INVENTION FOR A LIMITED PERIOD OF TIME ON CONDITION AND IN CONSIDERATION OF HIS CONCEDING THE FREE USE OF THE SAME TO THE PUBLIC AFTER THE EXPIRATION OF THAT TIME.

As appears from the authorities already cited, an inventor or author might, at common law, reserve to himself the monopolistic use of the result of his industry and skill, or not make any use of it whatsoever, or give it out for private, confidential and limited purposes only. The public has no right to compel a publication, therefore it loses no right in respecting a restricted disclosure. But an unrestricted offer of a single product or reproduction for public use operates as a disclosure or publication, and the "natural monopoly" incident to the ownership of the undisclosed invention or concept is forever lost.

This being the state of the common law, the United States has said to inventors and authors that if they would give the general public the advantage of their genius and the free and unlimited use of their works after the expiration of a certain period of time, the United States would give to them the exclusive rights in their inventions and compositions for that period of time, notwithstanding the exposure or publication in the interval. These are the conditions, and the only ones, upon which such exclusive rights can be obtained. In

Grant v. *Raymond,* 6 Peters, 218, at 241, 242,

Chief Justice Marshall said:

> "The settled purpose of the United States has ever been, and continues to be, to confer

upon authors of useful inventions an exclusive right in their inventions for the time mentioned in their patent. It is the reward stipulated for the advantage derived by the public from the exertions of the individual and is intended as a stimulus to those exertions. The laws which are passed to give effect to this purpose ought, we think, to be construed in that spirit in which they have been made; and to execute the contract fairly on the part of the United States * * * the public yields nothing which it has not agreed to yield; it receives all which it has contracted to receive. The full benefit of the discovery, after its enjoyment by the discoverer for fourteen years, is preserved; and for this exclusive enjoyment of it during that time the public faith is pledged."

In the case of

Wheaton v. *Peters*, 8 Peters, 591, at 663, 664,

Mr. Justice McLean said:

"When the Legislature * * * vests an exclusive right in an author or inventor they have the power to prescribe the condition on which such right shall be enjoyed, and no one can avail himself of such a right who does not substantially comply with the requisitions of the law."

See to the same effect

Wilson v. *Rousseau*, 4 How., 646, at 674.

See, also,

Bement v. *National Harrow Co.*, 186 U. S., 70,

where Mr. Justice Peckham cites with approval the cases last referred to, *and expressly bases on this implied con-*

tract between the people of the United States and an inventor, the right of the latter, during the lifetime of the patent, to maintain an exclusive monopoly in the trade in the articles manufactured under the patent.

To the same effect are the decisions in

Goodyear v. *R. R. Co.*, Fed. Cases, No. 563.
Carr v. *Rice*, Fed. Cases, No. 2240.
Columbia Wire Co. v. *Freeman Wire Co.*, 71 Fed., 302, at 306.
Bloomer v. *McQuewan*, 14 How., 539, at 549.
Bloomer v. *Millinger*, 1 Wall., 340, at 351.
Bonesack Machine Co. v. *Smith*, 70 Fed., 383, at 386-7.
Mitchell v. *Hawley*, 16 Wall., 544.

It is submitted that the above authorities support the general doctrine that *the new right created* and conferred by the patent and copyright laws of the United States, is the right to maintain an exclusive monopoly in the articles produced under such statutory rights.

For the purpose of this argument, the right to print, publish and sell under the copyright law may be considered as the same in principle and consequences as the right to make, use and sell under the patent laws. This right divides itself naturally in the exclusive rights granted to the patentee before sale, and the rights to exercise control over the articles manufactured under the patent, after sale.

1. *The rights before sales.*—The monopoly conferred by patent or copyright includes the exclusive right to manufacture or use, the right of making the initial sale, and the right to transfer all or any part of these specified rights.

These rights, created and conferred by statute, are in derogation of the common law right of the general pub-

lic to manufacture, use and sell an inventor's or author's product when once the initial publication or disclosure had been made. It consists in conferring a monopoly of manufacture, and hence of initial sales, notwithstanding that by such sales he is offering the articles manufactured to the public use, and thus making them the subject of general trade and commerce. This initial right is separable from the rights after sale and has no direct bearing upon the questions at issue. It has no more relation to these questions than the petitioner's right to sell or assign in whole or part its secret processes and formulas has to its right to control the sale of the products made by their use.

The reason for interjecting this brief discussion at this point is to indicate a distinction which negatives the relevancy of many of the cases cited in support of the petitioner's claim—cases dealing with the rights to owners of patents, copyrights and trade secrets to sell or assign under restrictions all or part of these initial rights. As has appeared in the discussion of the common law rights of inventors and authors, they have no legal, exclusive right before publication. Such monopoly as they have is the result of secrecy. It is not exclusive in the sense that the law prevents anyone from using and selling the invention when once lawfully discovered. Though there may be some similarity between the "natural monopoly" of an owner of a trade secret in the use and sale of the secret and the initial exclusive rights above specified, these rights being distinguishable from the rights of controlling the subsequent trade in the products manufactured by their use, the authorities cited have no bearing, even by analogy, upon the petitioner's contention.

2. The rights after sales.—The exclusive right conferred by the patent and copyright laws includes the right to control the subsequent trade in the articles manufactured under the patent or copyright and to establish a monopoly therein.

As this right is identical with the right which the petitioner claims in this case, it is important to consider whether or not it is based solely upon the provisions of the patent and copyright laws or whether it is a right existing under the common law.

The petitioner concedes that if what it seeks is to exercise a common law right, such right exists as an exception to the general rule against restraint of trade, and that this exception is based upon its ownership of secret formulas and processes and upon the good will incident to the exploitation and advertisement of the products manufactured by their use. Its claim is to do what it concedes to be unlawful at common law, in the absence of special right.

The earlier cases, although recognizing the right of a patentee to impose restrictions upon the subsequent sales of the articles manufactured by him, held that in the absence of such restrictions or conditions the articles when sold became free from the monopoly.

Bloomer v. *McQuewan*, 14 How., 539, at 549.
Chaffee v. *Belting Co.*, 22 How., 217, at 223.
Bloomer v. *Millinger*, 1 Wall., 340, at 351.
Mitchell v. *Hawley*, 16 Wall., 544, at 548.
Wilder v. *Kent*, 15 Fed., 217.
Holliday v. *Mattheson*, 24 Fed., 185.

Subsequent cases held that the particular restrictions at issue were valid.

Dickerson v. *Mattheson*, 50 Fed., 73.
Boesch v. *Graff*, 133 U. S., 697.
Dickerson v. *Mattheson*, 57 Fed., 524.

In none of these cases did the issues necessitate the decision of the question whether the right to impose restrictions was purely statutory or was a common law right. The question of whether the patent laws authorized the imposition of conditions and restrictions that would be unlawful at common law arose in the case of

Heaton-Peninsular Button Company v. *Eureka Specialty Company,* 77 Fed., 288.

In this case the Circuit Court of Appeals for the Sixth Circuit, in confirming the right of the patentee to extend his monopoly over the articles after they were sold by him, stated that the right so to do was a part of the exclusive monopoly granted by the patent laws, and that such restrictions were not void, as in restraint of trade, because the patent laws expressly granted rights in derogation of the common law. This right has been sustained upon the same basis in

Dickerson v. *Tinling,* 84 Fed., 192.
EdisonPhonograph Co. v. *Kaufmann,* 105 Fed., 960.
Edison Phonograph Co. v. *Pike,* 116 Fed., 863.
Rupp et al v. *Elliott,* 131 Fed., 730.
The Victor Talking Machine Co. v. *The Fair,* 123 Fed., 428.

In the case of

Bement v. *National Harrow Co.,* 186 U. S., 70,

the Supreme Court of the United States, on a full review of the nature and extent of the monopoly conferred by the patent laws, held that the monopoly granted included the right to control the subsequent trade in the articles manufactured, and to fix the prices at which the goods should be resold. At page 91, *et seq:*

> "The very object of these laws is monopoly, and the rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article will be upheld by the courts. The fact that the conditions in the contract keep up the monopoly or fix prices does not render them illegal. * * * The owner of a patented article * * * may * * * sell the article patented upon the condition that the assignee shall charge a certain amount for such article."

All the decisions above cited base the right of creating a monopoly in the subsequent trade in the articles manufactured and of controlling the prices at which the vendees of the patentee must resell, solely upon the exclusive right given by the patent laws.

Some of these cases were based upon tort for infringement of the patent by violation of the restrictions; others were based upon contracts embracing conditions and restrictions; in every case the right to impose conditions and restrictions, whether by license or contract, was based upon the monopoly conferred by the statute. As was said by the Court of Appeals in *John D. Park & Sons Co. v. Hartman (supra)*, at p. 27:

> "The patent grants an exclusive right to use, to make and to sell. The patentee may grant, if he will, an unrestricted right to make and sell or use the device embodying his invention or may grant only a restricted right in either the field of making, using or selling. To the extent that he restricts either one of these separable rights, the article is not released from the domain of the patent, and anyone who violates the restrictions imposed by the patentee, with notice, is an

infringer. This is the ground upon which the cases stand which uphold restrictions upon either use or sale of a patented article where infringement is alleged. But when a patentee imposes such restrictions they may likewise constitute a contract between the patentee and his direct vendee or licensee. In such case the patentee would have a double remedy, an action in tort for infringement, or an action for the breach of the contract. * * * Whether a remedy is sought for the violation of restrictions placed by a patentee, upon either the use or the sale of an article made under the patent, is in tort or in contract, the rules of the common law in respect of monopolies and restraints of trade have no application, because the very object of the patent law is to give to the patentee an exclusive monopoly in using, making and selling the device which embodies the invention, and this exclusive right he may exercise by contracts under which he reserves to himself so much of his exclusive right as he does not elect to sell or assign or license. It follows, therefore, that contracts restraining subsequent sales or use of a patented article which would contravene the common law rules against monopolies and restraints of trade, if made in respect of unpatented articles, are valid because of the monopoly granted by the patent."

So far as the same and similar questions have been considered by state courts, the same conclusion was reached. Thus in the case of

Murphy v. *Christian Press Pub. Co.*, 56 N. Y. Supp., 597,

the right of the owner of a copyright, to impose conditions and restrictions on the subsequent trade in books

published under his copyright, was sustained, solely because of the right of monopoly thereby conferred.

The same doctrine that the exclusive right of monopoly granted by the patent laws made legal conditions and restrictions as to trade in such articles, which would otherwise be illegal, was sustained by the Court of Appeals of New York in the case of

Park v. *N. W. D. A.*, 175 N. Y., 1.

and in the decision of the lower courts of New York in this case, which were there affirmed. This case was submitted on demurrer to a complaint in an action brought by the respondent in the present action. In this complaint the articles were described as patent medicines, etc., and upon demurrer to the complaint the courts held that the combination complained of was not illegal, as a combination to maintain prices, because this right of fixing prices was a right of monopoly expressly granted by the patent laws of the United States.

That this is the proper construction to put upon these decisions, and that the right was not sustained upon any other ground, is apparent by reference to the subsequent decision of the same court in the case of

Straus v. *American Pub. Assn.*, 177 N. Y., 473,

where, at page 477, the Court of Appeals expressly point out that the decision in the Park case was based upon the right of monopoly given by the patent laws.

In the Bement case cited above, it was urged that the stipulations restricting the price at which sales might be made were in violation of the Act of Congress of July 2, 1890, familiarly known as the Sherman Anti-Trust Law, but the court held that the act did not apply to contracts in relation to patented articles, saying:

> "But that statute clearly does not refer to that kind of a restraint of interstate commerce which

> may arise from reasonable and legal conditions imposed upon the licensee or assignee of a patent by the owner thereof, restricting the terms upon which the articles may be used and the price to be demanded therefor. Such a construction of the act we have no doubt was never contemplated by its framers."

It would seem to be very clear from the above review of the authorities that the owner of a patent or copyright has the right to establish and maintain a control over the subsequent trade in articles, identical in every respect with that which the petitioner is attempting to do in this case, notwithstanding that such system creates and maintains a monopoly that is illegal both at common law and under the provisions of the Sherman Anti-Trust Act; and that this right, to thus establish and carry out that which is otherwise unlawful, is a right derived solely from, and based upon, the provisions of the patent and copyright laws of the United States.

The right thus granted is a right to do, establish and enforce something that is illegal at common law and under the Sherman law. The means of accomplishment are immaterial. It matters not whether the control of trade is by contract or by license, the patent and copyright laws permit this control to those who avail themselves of the benefit of those laws by subscribing to their conditions, and to no one else.

The conclusion from the above discussion and the authorities cited is, that the patent and copyright laws confer upon the owners of patents and copyrights, not only an exclusive right to manufacture and sell the article produced under such patent or copyright, but *the right to establish and maintain control over subsequent trade in such articles, including the right to fix the prices at*

which such articles shall be resold by their vendees and sub-vendees, exempting them and their goods entirely from the application, in this respect, of the ordinary principles of law.

The petitioner concedes that it has no patent or copyright, but claims the right which has been granted to the owner of a patent or copyright to control the subsequent trade and prices in the articles manufactured thereunder upon some special right, which it contends exempts it from the application of the general rules of the common law. Its right, if any exists, must be based either upon something peculiar to itself, or upon its ownership of trade-marks, trade names, labels and trade secrets. We deem it advisable, before taking up the main question at issue, to indicate the limits of the rights incident to the ownership of each of these species of property.

Second. The Rights of the Owners of Trade-Marks, Trade Names or Labels.

As we have seen, the rights of the owner of a patent or copyright are based upon the express grant of the statutes, which give the exclusive rights to make, use and sell the articles manufactured thereunder. The Acts of Congress relative to trade-marks, etc., confer no rights over the articles to which the same may be attached. These acts protect an exclusive right of property in the mark, name or design, and the exclusive right to affix the same to articles manufactured by the owner of the trade-mark. The petitioner's ownership of trade-mark, name or label does not bear with it a special right to maintain any exclusive control over the article to which they are attached, which would be unlawful, either at com-

mon law or under the statutes, in the absence of ownership of such trade-mark, name or label.

Authorities to this effect might be adduced *ad libitum*. It will be sufficient to mention the case of

The Singer Mfg. Co. v. *June Mfg. Co.*, 163 U. S., 169.

The complainant had been exercising an exclusive control under patents on sewing machines, which had also been sold under trade-marks and trade names. The exclusive rights under the patent laws had been lost by the expiration of the patents; the question was whether the right was continued in any way by the trade-mark and trade name. The court held that the only effect of exclusive right to use the trade name was, that other persons, in manufacturing or dealing in the articles, could not represent them as the product of the camplainant. In

Sperry & Hutchinson Co. v. *Mechanics Clothing Co.*, 128 Fed., 800,

the question was as to the right to impose restrictions upon the use of trading stamps. This right was claimed, among other reasons, because of the exclusive right to the trade-mark thereon. Although sustaining the right on other grounds, the court said, at page 803, that such part of the bill as based the right upon the ownership of trade-marks was entirely irrelevant. The authorities are fully reviewed in the case of

Chadwick v. *Covell*, 151 Mass., 190,

wherein the court in a well considered opinion held that the owner of a secret medicinal preparation had no exclusive right therein, by reason of his secret formula, and that no right in the articles manufactured under the formula was given by the trade-mark or trade name under

which they are sold. Additional decisions upon this point will be found in

Johnson v. *Rutan*, 122 Fed., 993, at 988.
Scriven v. *North*, 124 Fed., 894, at 897.
Independent Baking Powder Co. v. *Boorman*, 130 Fed., 726.
Flagg v. *Holloway*, 178 Mass., 83.
Dover Stamping Co. v. *Fellows*, 163 Mass., 191.
People v. *Cannon*, 139 N. Y., 32.

The respondents are not charged with infringing the trade-mark or trade dress or with having sold or offered for sale a preparation of their own for and as the preparation of the petitioner. The authorities above cited make conclusive the proposition that the petitioner has not, by reason of its ownership of trade-marks, names and labels, any right to maintain an exclusive control over the articles to which they are attached, or to impose upon their subsequent sale any restrictions or conditions which would be unlawful at common law or under the statute in the absence of such ownership. The averments of the bill as to the petitioner's trade name and trade dress are irrelevant. [*John D. Park & Sons Co.* v. *Hartman (supra)*, p. 38.]

Third. The Common Law Rights of Inventors or Authors.

In our discussion of the exact rights granted by the patent and copyright laws, the rights of authors or inventors who had not complied with the conditions of these laws were fully discussed. At this point we merely desire to recall to the court that the conclusion heretofore reached was that such inventor or author had no exclusive right in his invention or concept; that his sole rights were to protection against the use thereof after unlawful

discovery or violation of confidence; and that, having made the initial sale or publication, he had no right whatsoever to control, by any conditions or restrictions, the subsequent trade in the articles manufactured by the use of his secret.

The petitioner in its exhaustive search for cases in which a restriction was enforced by the courts, has found some consolation, though no logical support, in certain classes of cases whose distinctions it is now proposed to discuss.

Fourth. The Cases Relating to the Distribution of News and Information.

Several recent cases uphold the right to distribute news and information under restrictive conditions. The right so sustained will be found to be the same right which an author had at common law to distribute his work for private use before publication, and to impose conditions absolutely restricting the same to such use. The right to so distribute news and information is subject to the same limitations and is likewise absolutely lost by publication. In the case of

Jewellers' Mercantile Agency v. *Jewellers' Pub. Co.*, 84 Hun., 12,

the right to restrict the publication of news was sustained on the basis of the common law right of authors prior to publication. The case was reversed by the Court of Appeals (155 N. Y., 251) on the ground that there had been a publication by which the right of exhaustive property had been lost. To the same effect as the nisi prius decision are the cases of

Dodge v. *Construction Information Co.*, 183 Mass., 62.

Kiernan v. *Manhattan Tel. Co.*, 50 How. Pr., 194.
Gold & Stock Tel. Co. v. *Todd*, 17 Hun., 548.

In the cases of

National News Co. v. *Western Union Tel. Co.*, 119 Fed., 294,
State v. *Associated Press*, 159 Mo., 410,
Dunlap v. *Stone*, 15 N. Y. S., 2,
Matthews v. *Associated Press*, 15 N. Y. S., 887,

the courts did not expressly consider the analogy of the common law rights of authors, but sustained the right because the news had not been made a matter of general property. This is simply stating, in another form, the principle underlying the common law doctrine of the rights of authors prior to publication. The petitioner relies upon the recent case of

Board of Trade v. *Christie*, 198 U. S., 236.

The petitioner seizes a portion of the opinion and, without regard to its context and the reasoning upon which the conclusion is based, forces its application in support of its contention. It is submitted that this decision bases the right to impose restrictions on the use of news upon the same grounds as the cases already cited, the court saying:

> "The plaintiff does not lose its right by communicating the result to persons, even if many, in confidential relations to itself, under a contract not to make it public."

This, as has been shown, is the common law right of authors prior to publication, which is lost by a publication of their works. The court says that this right is like the right under a trade secret. The analogy is complete. It does not mean, as petitioner would have it, that the owner of a trade secret can con-

trol the subsequent trade in the articles embodying his secret. It does mean that just as the owner of a trade secret, who has communicated his secret in confidence and under an agreement as to its use and preservation, will be protected against a violation of the conditions upon which the confidence was given, so the owner of news or information will be protected against the violation of the confidence upon which he has communicated his information. The application of the Christie decision to the facts in issue is not that contended for by the petitioner, but rather that the petitioner, being the sole owner of its secret formula and process, alone has the sole power and therefore, until lawful discovery, the sole right to communicate its secrets. It has, therefore, the right to refrain from communicating or selling its secrets. The public can not learn these secrets upon any terms unless the petitioner so chooses; therefore it might impose restrictions upon the use of its secrets, if it desires to sell or disclose them, without violating the common law and statutory rules against restraints of trade.

Nor does the fact that in the *Christie* case the Supreme Court referred to the *Bement* case, 186 U. S., 70, alter the interpretation of this decision. In the Christie case the court based the right of restraint upon the confidential character of the communication. The Bement case is based upon an exclusive right granted by the patent statutes. It has been seen that in the latter case the exclusive right is not based upon secrecy or confidence, but continues despite publication and public use. The effect of the citations in the Christie case is, that whenever a right to impose restrictions exists, whether it be by reason of the ownership of an undisclosed secret or an unpublished conception or compila-

tion, or by reason of a patent, then contracts, employed as a means of exercising this right, are not illegal.

The Circuit Court of Appeals upon this point held in the *Hartman* case *(supra)*, at p. 31:

> "The cases relating to the distribution of news and information rest also upon the peculiar kind of property rights involved. So long as one, who by his own industry has gathered together news or information and does not disclose it, he can not be compelled to make publication. The matter is his own in as true a sense as a trade secret or private formula, or the composition of an author. In such circumstances it is not illegal to protect the news gatherer against the piratical use of his news and prevent a public disclosure by one who has placed himself under obligation to respect a restricted use. In such case public disclosure is destructive of its value as property. *Board of Trade* v. *Christie*, 186 U. S., 236, 250; *Jewellers' Mercantile Agy.* v. *Jewellers' Pub. Co.*, 84 Hun., 12, 155 N. Y., 251; *National Tel. News Co.* v. *Western Union Tel. Co.*, 119 F., 294; *Exchange Tel. Co.* v. *Gregory, etc., Co.*, 1 Q. B. Div., 147 (1896); *F. W. Dodge, etc., Co.* v. *Construction Co.*, 183 Mass., 63. In the Board of Trade case cited above, Justice Holmes, speaking of the protection granted to the business of distributing stock quotations said:
>
> " 'In the first place, apart from special objections, the plaintiff's collection of quotations is entitled to the protection of the law. It stands like a trade secret. The plaintiff has the right to keep the work which it has done, or paid for doing it, to itself. * * *
>
> " 'The plaintiff does not lose his right by communicating the result to persons, even if many, in confidential relation to itself, under a contract not to make it public.' "

The application of all these cases, therefore, to the claims of the petitioner is to the use or sale of its secret recipes and processes, so long as they remain such. They are totally irrelevant to its claim of right to impose restrictions upon the sale and sub-sales of the articles manufactured by the use of its formulas and processes.

Fifth. The Ticket Broker and Trading Stamp Cases.

It has been claimed that the trading stamp cases

Sperry & Hutchinson v. *Mechanics' Clothing Co.*, 128 Fed., 800,
Same v. *same*, 135 Fed., 833,
Same v. *Temple*, 137 Fed., 992,

and the ticket brokers cases, among others,

L. & N. R. R. v. *Bitterman*, 128 Fed., 176; 144 Fed., 34; 207 U. S., 205;
Ill. Central R. R. v. *Caffrey*, 128 Fed., 770,

furnish authority for the contention of the petitioner. The right to impose restrictions upon the subsequent use of a property right transferred, finds it fundamental basis upon whether or not the thing conveyed has become the subject of general trade. If it has not become a matter of general commerce, the rules applicable to things in general do not apply.

The cases above cited are applications of this broad underlying principle. The property right therein considered is not a thing which, from its nature, can ever become a proper subject of general trade. These cases are thereby removed entirely from the field of general commercial law. The railroad ticket is a contract to perform personal service, which can properly be limited to the original contracting party. The trading stamp is similarly a contract to perform a personal service, to redeem the stamp, and can likewise be limited to the per-

son to whom it is issued. In these cases, as in the news and information cases, the right to limit the use to certain purposes was sustained because the same had not been made the subject of general commerce.

In the *Hartman* case the Circuit Court of Appeals held (p. 31):

> "The trading stamp and railroad ticket cases * * * likewise rest upon the peculiar property rights involved. Neither concern the buying and selling of articles of general commerce and both relate to things in the nature of contracts personal in character, and not to the thing which can ever become the subject of general trade and traffic."

These cases, therefore, furnish no authority for the right to impose restrictions upon things, the subject of general trade; nor do they affect the conclusion which we are seeking to establish, namely, that no right to impose restrictive conditions on the trade in articles of general commerce exists, unless such right has been specifically granted by affirmative statutes.

Sixth. The Rights of a Guarantor Under the Food and Drugs Act.

The petitioner alleges that it has complied with the Food and Drugs Act, and that, in compliance with the regulations of the Secretary of Agriculture, it has filed a general guaranty with the Department of Agriculture. From this the petitioner argues that its guaranty runs with the article and that therefore any restrictions or conditions which it imposes also accompany the article. The petitioner argues also that in exchange for giving immunity against prosecution to the wholesale and re-

tail dealers in its products, it may lawfully impose these restrictions and conditions.

The general guaranty was filed by the petitioner in its own interest, for the enhancement of its own trade, and not at the request or in the interest of its wholesale and retail dealers. Consequently this act can not be construed as a consideration or an excuse for the imposition of conditions.

The Food and Drugs Act provides that no dealer shall be prosecuted if he can establish a guaranty by any person in the chain of title that the articles under the guaranty are not adulterated or misbranded within the meaning of this act. Regulation No. 9, adopted and promulgated for the enforcement of this act under the authority of Congress, permits a general guaranty to be filed with the Secretary of Agriculture and provides that thereupon the manufacturer should be given a serial number, which number should appear upon every package sold under such guaranty, with the words: "Guaranteed under the Food and Drugs Act, June 30, 1906." It is apparent that immunity is not given by the appellant, but by the Act of Congress; that the guaranty does not run with the articles, but that the serial number thereon, by Act of Congress and not by contract, is construed by the Government as a substitute for a direct guaranty to the person in whose possession it may come.

Compliance with the Food and Drugs Act plainly can give the petitioner no right to impose restrictions upon the trade in its articles which would be unlawful in the absence of such compliance.

Seventh. The Rights of Owners of Trade Secrets.

The case at bar belongs directly to this class of cases. As the foregoing discussion has sufficiently indicated,

the petitioner disclaims the ownership of patent or copyright; the news and information and the ticket and trading stamp cases lend no support, even by analogy, to its contention; and its trade-mark, name and dress give it no right to impose conditions, unlawful in their absence, upon the articles to which they are affixed. Consequently, if such right exists, it must find its basis entirely in the ownership of secret formulas and processes, and this, after the cobwebs of forced analogy and irrelevant citation have been swept aside, is disclosed as the frame upon which the petitioner has built its case. Its argument is that the natural monopoly in trade secrets, consequent to their preservation as such, carries with it an incidental right to establish a monopoly and to restrain competition in the articles of general commerce manufactured by their use, in all respects identical with the right given to the owners of patents and copyrights by the patent and copyright laws of the United States.

The distinction between the right to control the secret against unlawful discovery or unfair use, and the right of control over the articles manufactured thereunder, is overlooked and ignored.

In the discussion of the rights granted to owners of patents and copyrights, and of the common law rights of inventors or authors, the position of the respondent (in which it was sustained in the opinions of both the lower courts), that trade secrets give no right of control over the articles manufactured by their use, has been briefly set out. We deem it important, because the petitioner's claim has been reduced to this single proposition, to review the authorities thereon at length and show that the petitioner's contention can not be sustained either in principle or upon authority.

As will be remembered, the proposition which the respondent seeks to establish is that the right to impose monopolistic restrictions upon the trade in articles of general commerce is confined to those owning patents or copyrights by virtue of their compliance with the statutes of the United States, and that this right can not be claimed by any other persons as to any species of property which is the subject of general trade. This proposition is submitted as the necessary and only possible conclusion to be derived from the cases construing the rights conferred by the patent and copyright laws.

The petitioner's claim that the right of monopolistic restraint has been recognized in favor of other persons, and applied to other species of property, has been shown in the previous discussion to be merely the recognition of the right to impose certain restrictions upon property not the subject of general trade, and that that right was lost whenever the property in question became the subject of general trade.

In the consideration of the rights of owners of trade secrets affirmatively, it might be well to suggest at the outset that certain trade restrictions are valid at common law regardless of the nature of the property involved. The principle underlying the validity of these restrictions, and the classification of cases thereunder, were very fully discussed by the Circuit Court of Appeals of the Sixth Circuit in the case of

United States v. *Addyston*, 85 Fed., 271,

where Judge Taft makes no distinction between the application of the common law rules to trade secrets and to other species of property. In the cases

Jarvis v. *Peck*, 10 Paige, 118,
Hart v. *Seeley*, 47 Barb., 428,
Allcock v. *Gilberton*, 5 Duer, 76,

Tode v. *Gross*, 127 N. Y., 480,
Simmons Medicine Co. v. *Simmons*, 81 Fed., 163,
Fowle v. *Park*, 131 U. S., 88,
Magnolia Metal Co. v. *Price*, 65 App. Div. (N. Y.), 276,
Anchor Elec. Co. v. *Hawkes*, 171 Mass., 101,
Harrison v. *Glucose Co.* 116 Fed., 304,
Jarvis v. *Knapp*, 121 Fed., 34,
Thibodeau v. *Hildreth*, 124 Fed., 892,

the decisions that the contracts under consideration were not unlawful, as in restraint of trade, were based upon general common law rules, and not upon any peculiar right of the owner of a trade secret to do what would otherwise be unlawful at common law.

Similarly in

Gamewell v. *Crane*, 160 Mass., 50,
Mallinkrodt Chemical Co. v. *Nemmich*, 83 Mo. App., 6, aff. in 169 Mo., 388,

similar contracts were held illegal as in violation of the general common law rules, thereby plainly holding that the ownership of trade secrets involves no special rights of restraint.

It is manifest that in accordance with the views expressed in the above cases, the owner of a trade secret has no peculiar rights entitling such contracts as he might make to any exemption from the application thereto of the ordinary principles of common law; nor can the petitioner, so far as these cases are concerned, claim any authority to establish a monopolistic control over the trade in its product that would be unlawful at common law.

The owner of trade secrets has certain common law rights peculiar to the nature of his property, just as an author before publication, the owner of news and infor-

mation before publication, and the owner of an undisclosed invention has peculiar rights because his property has never been made the subject of general commerce. These rights are confined to the secret itself and do not extend to any product made by their use which has become the subject of general trade. In the case of

Tabor v. *Hoffman*, 118 N. Y., 30,

the plaintiff was the owner of a pump on which the patent had expired, and of improvements which had not been patented, and was also the owner of certain unpatented patterns, etc., in accordance with which the pumps were made, the nature and use of which had been kept secret. It was held that he had a right to enjoin the defendant from using or copying such secret patterns, the court saying:

> "Independent of copyright or letters patent an inventor or author has, by the common law, an exclusive property in his invention or composition, until by publication it becomes the property of the general public. * * *
>
> "As the plaintiff had placed the perfected pump upon the market, without obtaining the protection of the patent laws, he thereby published that invention to the world and no longer had any exclusive property therein.
>
> "But the completed pump was not his only invention, for he had also discovered means, or machines in the form of patterns, which greatly aided, if they were not indispensable, in the manufacture of the pumps. This discovery he had not intentionally published, but had kept it secret, unless by disclosing the invention of the pump he had also disclosed the invention of the patterns by which the pump was made. The precise question, therefore, * * * is whether there is a secret in the patterns that yet remains a

> secret, although the pump has been given to the world."

The court held that plaintiff had exclusive right in his secret patterns, basing its decision upon the analogy of this form of trade secret to a secret medicinal preparation, and stating the established law in such case to be, that, while the courts would not interfere with the use of a secret discovered by fair methods, they would restrain persons who had learned secret formulas by unfair means, such as bribery or breach of confidence. In the case of

Steward v. *Hook,* 118 Ga., 445,

the court followed the Tabor decision, holding that the right of an owner of a secret preparation was like the common law right of an author or inventor, and was exclusive only until publication. In

Chadwick v. *Covell,* 151 Mass., 190,

the court said, with reference to secret formula for manuturing medicine, that the owner

> "* * * had no exclusive right to the use of his formula. His only right was to prevent anyone from obtaining or using them through a breach of trust or confidence."

To the same effect are the cases

Peabody v. *Norfolk,* 98 Mass., 452,
Chain Belt Co. v. *Von Spreckelsen,* 117 Wis., 106,
Westervelt v. *National Paper & Supply Co.,* 154 Ind., 673,
Vulcan Detinning Co. v. *American Can Co.,* 58 Atlantic Reporter, 290.

In the case of

Central Transportation Co. v. *Pullman Car Co.,* 139 U. S., 24,

the Supreme Court, although holding the contract therein involved illegal, incidentally referred to the rights of patentees and of the owners of secret process, saying with reference to the first, that a right of monopoly would arise from the express provisions of the Act of Congress, and with reference to a secret process, that a contract not to communicate it, made in connection with the sale of the process is lawful because

> "a process must be kept secret in order to be of any value, and the public has no interest in the question by whom it is used."

Similarly, in the case of

Vickery v. *Walsh*, 19 Pick., 523,

a contract to convey an exclusive right in a secret process was held valid because the public was not affected by the sale of the entire secret to someone else.

The above authorities define affirmatively the rights of owners of trade secrets. It will be observed that the utmost extent to which any special protection is given such property, is against one who acquires it by breach of contract or trust. The protection is the same as that given at common law to the owners of unpublished concepts and undisclosed inventions.

None of the cases recognize any right of the owner of secret formulas or processes to control in any way the trade in the articles produced by their use.

There, are, however, a number of decisions, nisi prius and others, which it is claimed sustain the rights of owners of secret medicinal preparations to impose conditions upon their vendees as to the prices at which the same shall be resold. These cases may properly be classified as those in which counsel for the petitioner herein sought the establishment of systems in all essential respects

similar to the Miles system, and those in which counsel for the petitioner was not directly interested.

Consideration will be given to the former class hereinafter.

Among the latter cases are

Garst v. *Harris*, 177 Mass., 72,
Garst v. *Charles*, 187 Mass., 144,
Elliman & Sons v. *Carrington & Son*, L. R. (1901), 2 Ch. Div., 275, and
Walsh v. *Dwight*, 59 N. Y. S., 91.

If these cases laid down the proposition that the owner of an unpatented trade secret had an exclusive right which would enable him lawfully to maintain a control over the trade in the articles manufactured thereunder which would be unlawful in the absence of such ownership, or that such ownership authorized a monopoly which is conceded to the owners of patents and copyrights, then these cases are contrary to the overwhelming weight of the authorities already cited. This would be true, even if these cases had considered the principles and lines of distinction clearly established by the authorities and had attempted to expressly decide that the same were not well taken, and to overrule them. Much more is this true when this result is to be drawn, if at all, as a mere negative inference from these cases. Petitioner can scarcely maintain the proposition that the fundamental and established distinctions which we have been considering, and the long and conclusive line of decisions in which they have been recognized and applied, are to be overruled and swept away by negative inferences from cases in which these distinctions have not been considered.

With reference to *Garst* v. *Harris* and *Garst* v. *Charles*, decided by the Supreme Court of Masachusetts, it was

manifestly not the intention of the court to lay down the general proposition contended for by the petitioner, nor to overrule the fundamental distinctions hereinbefore set forth. In

Peabody v. *Norfolk*, 98 Mass., 452, and
Chadwick v. *Covell*, 151 Mass., 190,

that court expressly held that the owner of a secret preparation had no exclusive right against the general public. In

Gamewell v. *Crane*, 160 Mass., 50,

the same court held that restrictive contracts relative to unpatented secret rights were illegal when they transcended the common law rights in this respect, thereby expressly deciding that the ownership of trade secrets gives no right to do what would be unlawful in the absence of such ownership. In

Anchor Elec. Co. v. *Hawkes*, 171 Mass., 101,

the same court determined the legality of contracts relative to secret rights solely on the basis of common law principles, distinguishing the case last referred to because what was there under consideration was unlawful at common law.

It can hardly be contended that it was the intention of the Supreme Court of Massachusetts in the Garst cases to overrule its own harmonious line of decisions upon this question. On the contrary, the cases upon which the court based its opinion in *Garst* v. *Harris* will show that the court was merely sustaining the right to impose a limited restriction, such as would be lawful at common law. The court had under consideration one separate and distinct contract between the manufacturer and one of his vendees. It did not appear that the manufacturer was attempting to establish, by a system of

contracts, a general restraint of trade. The meaning necessarily to be assigned to this decision must be that a limited restraint of trade, such as would be involved in one single contract of that kind, is lawful. This might well be so if it related to a single contract with one vendee, but not if it was a general scheme or system, as will be clearly shown upon consideration of the legality of the scheme at issue in the case at bar.

That the above is the correct interpretation to put upon the decision of *Garst* v. *Harris* clearly appears from the subsequent opinion of the same court in

Garst v. *Hall*, 179 Mass., 588.

In this case the court says that the right recognized in the former case was simply a right arising from contract and not in any way from the nature of the property, and the court briefly but clearly recognizes the distinctions hereinbefore set forth between the rights of patentees, the common law rights of authors, and the general rights of all persons at common law.

The subsequent case of *Garst* v. *Charles* must be construed with reference to this view of the case of *Garst* v. *Harris*. While it does appear in *Garst* v. *Charles* that the manufacturer was taking more than one such contract, it does not appear whether they went to such an extent as to amount to a restraint that would be illegal at common law. Moreover it clearly appears that the right was assumed in the latter case without discussion. The decision is based upon *Garst* v. *Harris*, which rests upon a common law right, and upon *Park* v. *N. W. D. A.*, which, as we have above indicated, rests exclusively upon the right under the patent laws. It can not be assumed that the court intended to overrule its former clear decisions recognizing the distinctions between these rights.

Hence the decision in *Garst* v. *Charles* must be based either upon the fact that the restraint was not so general as to be unlawful at common law, or, because no contest was made as to the question of the right, that that question was not considered or determined.

In the case of

Walsh v. *Dwight*, 40 App. Div., 513,

the restrictive contract was upheld because, as the court says, the article in question was one which any one could manufacture, and that for this reason the contract did not restrain in any way the general trade in that article; therefore it did not affect injuriously the rights of the general public. That this is all that was decided in this case appears in the subsequent decision of the same court in the case of

Export Lumber Co. v. *South Brooklyn Saw Mill Co.*, 54 App. Div., 218,

where the court states that the legality of the contract in the *Walsh* case had been sustained because neither the entire trade, nor any considerable portion of the trade in the article in question, had been restrained. In

Elliman v. *Carrington* (1901), 2 Ch. Div., 275,

the restraint was upheld because, as it appears, only a single contract between two contracting parties was in question. In discussing these cases the United States Circuit Court of Appeals said [*Hartman* case (*supra*), p. 37]:

> "The cases of *Elliman & Sons* v. *Carrington & Son*, L. R., 1901, 2 Ch. Div., 275, and *Garst* v. *Harris*, 177 Mass., 72, are also cited as supporting the legality of such a series of agreements as that under which complainant conducts his business. Both cases involved contracts of sale, presumably made under secret formulas, though

no stress is laid upon the fact in the Elliman case. *Each was a suit directly between the vendor and his vendee. Each involved only a single transaction* by which the article was sold upon an agreement that the purchaser would not re-sell at less than a named price. Neither concerned any other rights than those of the contracting parties, and neither decides more than that an agreement of sale of a chattel by which the purchaser agrees that he will not sell below a certain price is valid and not such a restraint of trade as to be obnoxious to the law. Neither case holds that a buyer from such a vendee, even with notice, would not get title or come under the obligation of the contract between the original parties. The most that can be made of the decisions, is, that, having regard to the subject-matter and the limited character of each agreement, neither contract had that sweep and extent which would constitute the restraint an unreasonable one and, therefore, not within the mischief of the rule against restraints. The Elliman case was decided by a single judge.

"*Walsh* v. *Dwight*, 58 N. Y. Sup., 91, another case relied upon to support the decree, was an action by a maker and dealer in saleratus and soda, alleged to be an article in common use, against another maker who sold another brand which he called 'Dwight's Cow Brand Saleratus and Soda,' for damages to him through a course of business by which his brand of the same article lost much demand. The defendant did this, first by extensive advertising, second, by giving to all dealers a rebate who would agree to sell its article at a minimum price named and to charge a like price for every other brand. The price thus fixed was, as averred, an extravagant price and operated to enlarge the demand for the defendant's advertised brand and diminish that for the plaintiff's. The court found no il-

> legal restraint of trade, as there was 'nothing to prevent others from engaging in the business or the manufacturer of other articles from selling their products to any one willing to buy.' The substance of the decision is well stated in the syllabus as follows:
>
> " 'An agreement by a manufacturer with his customers to give them a rebate if they should refuse to sell his article, or other similar articles, at less than a certain price, is not in restraint of trade.' "

Since the decision of the Court of Appeals in this cause, there have been three cases in which a court considered questions similar to those last above discussed. These are

Grogan v. *Chaffee*, 156 Cal., 611,
Garst v. *Wissler*, 21 Pa. Sup. Ct., 532,
Freeman v. *Miller*, Sup. Ct. Cincinnati, 9 N.P. (N.S.), 27.

So far as the opinions in *Grogan* v. *Chaffee* and *Garst* v. *Wissler* have any bearing upon the question at issue, they were unnecessary to the decision of the cases and therefore rest upon the weight of their reasoning and not upon authority. In *Grogan* v. *Chaffee*, the original plaintiff was the manufacturer of pure olive oil under a secret process and the vendor of the same under trade-mark and name. By contract, he imposed upon the defendant a price restrictive agreement. The grounds of the decision were first, that the plaintiff was not the only manufacturer of pure olive oil and that therefore his restrictions were not general or of sufficient scope to affect adversely the public interests, and secondly, that the court was called upon to decide only upon the enforcibility as between the parties to a single contract of the kind involved in the case. It does not appear that the enforci-

bility of a system of contracts was involved. The opinion is noteworthy only because the court, having plainly indicated that the decision of the Court of Appeals in this case had no bearing upon the issue before it, thereupon added "so far as it is applicable to the case before us it is contrary to the weight of authority." A dictum such as this supported by no reasoning is necessarily without force as an authority in support of the petitioner's contention.

The case of *Garst* v. *Wissler* presented the question as to whether a manufacturer, by notice attached to his product, could bind to its conditions a purchaser from his vendee. This question was decided in the negative and is an authority against the relief desired by the petitioner. A dictum holds, on the authority of the decisions in the Massachusetts *Garst* cases above discussed, that the manufacturer may lawfully impose conditions upon his direct vendees. The effect of this ruling is limited to that of the *Garst* cases last above referred to.

Giving all of the cases their widest bearing, they can not be said to establish the proposition that the ownership of a trade secret gives the right to impose such restrictions upon the subsequent sales of the articles manufactured thereunder as would be unlawful at common law in the absence of such ownership, and, inferentially they do decide that only such restrictive contracts are valid in regard to such articles as do not break the rules against restraint of trade in any articles of general commerce.

Freeman v. *Miller* was an action for damages by a manufacturer against a vendee, a contracting party. The petition set up a system of contracts in all respects similar to the system at issue in this cause. The questions were raised by a general demurrer. The court decided such system to be in violation of the common law, the

state anti-trust law and the Sherman Act. The court says, in part:

> "Such a system as is here under consideration, however, can not but tend to a complete monopoly and, under the authorities, I can not but conclude that a system of contracts such as this, is illegal as being in general restraint of trade unless the plaintiff, because of his secret formula or proprietary articles has in some manner acquired a right—an exclusive monopoly—identical with that of a holder of a patent or copyrighted article * * *. It is clear that in the cases where the statutory monopoly is accorded a patentee, the exclusive monopoly is given as a *reward* because of the ultimate disclosure that must be made to the public and the consequent unrestricted use and enjoyment assured the public by the patentee's industry and discovery. But what reason is there for according similar rights to one who has a valuable discovery, but who fails to secure it by patent? Instead of possible benefit to the public his discovery and knowledge is withheld. * * * In the former case the public is amply justified in bestowing a reward. In the latter case, there is absolutely no occasion for it. * * * I hold, therefore, that this plaintiff in selling the articles manufactured *solely* by him, in undertaking to fix the price and control sales and subsales, is in precisely the same situation as any other individual or manufacturer who undertakes to make contracts in restraint of trade, barring, however, the exception referred to. That is to say, like any other merchant or manufacturer, he is subject to the rules of common law against restraints of trade and he is subject to the provisions of statutory enactments against monopolies such as, in our state, the Valen-

> tine anti-trust act, or if the trade of traffic be interstate, the Sherman anti-trust act. * * * This contract or system of contracts viewed as a whole, brings about not a *partial restraint,* but a complete and entire control or general restraint of the entire trade in this distinct article of traffic. The public interests necessarily become injuriously affected because the price is fixed, and competition, which the law ever encourages, is everywhere stifled * * *. In view of the foregoing, the contract sued upon is illegal and contrary to public policy and the law of the land, and therefore can not be enforced."

In concluding the discussion of the fundamental distinctions involved in the ownership of patents and copyrights, trade-marks, trade names and labels, news and information and trade secrets, we again desire to emphasize the principle, founded in reason and supported by the authorities, that only those acting under affirmative statutory grant can impose such system of restraints on the future sales of the articles manufactured by the use of these species of special property, as is attempted by the petitioner herein without such statutory grant.

V.

THE LEGAL EFFECT OF THE CONTRACTS BETWEEN THE PETITIONER AND WHOLESALE DRUG DEALERS AND JOBBERS.

First. The Contract is One of Sale. It is submitted that the legal effect and purport of a contract set out in a bill of complaint is not to be determined merely from its terms as set out, but that, on demurrer, the bill as a

whole, including such contract, is to be considered in arriving at its interpretation.

This contract (*Record*, pp. 8-10), on its face, is a consignment contract for sale on the account of the manufacturer. It provides that the title shall remain in the manufacturer until the goods are sold to the retail dealer. It provides that the manufacturer at its option may demand the return of unsold goods, but it gives no right to the "consignee" to return the goods which he has failed to sell. It provides that the manufacturer may terminate the contract at any time, but it gives no corresponding right to the "consignee." It provides that the "consignee" shall guarantee the payment for all goods sold, but it does not provide that the obligations of the "consignee's" vendees shall run to the manufacturer. Its terms are such that the "consignee" is practically compelled to pay for the merchandise before he has received payment, and all risks attendant upon ownership are borne by the "consignee."

The court will take judicial notice of the fact that the cost of conducting a wholesale business under the most favorable circumstances approximates 10 per cent. This is the only "commission" allowed the "consignee," unless the consignment is paid for within ten days of its shipment, in which event an extra 5 per cent. is allowed. The retail contract provides for discounts ranging from 3 to 5 per cent. to the retail dealer. These discounts are paid from the wholesale dealer's "commission." It follows that unless he avails himself of the extra 5 per cent. allowed for payment in advance, his dealings in these articles of merchandise will be conducted at a loss. It is apparent from the bill that the "consignee" must pay for the goods in advance of his sales of said goods.

The consignment contract provides for the return of advances, only should the manufacturer terminate the agreement and the goods be returned. Hence the "consignee" may not voluntarily return the goods and receive a refunder, and should the goods be destroyed without fault of such "consignee," he could not secure a refunder of advances. Such refunder is conditioned absolutely, first, upon the cancellation of the agreement by the manufacturer, and second, upon the actual return of the goods against which advances have been made.

The retail contract provides that when shipments are made direct from the manufacturer to the retail dealer, that such shipments are made for the account of the so-called "consignee."

Aside from the contracts themselves, other allegations in the bill assert that the transactions between the manufacturer and wholesale dealer are sales. The interpretation placed upon a doubtful contract by the parties, particularly when such interpretation appears in a sworn document, conclusively presumed to have been prepared with utmost care, is of great weight in determining the interpretation to be placed thereon by the court. If there should be any doubt in the mind of this court as to the nature of the transaction from the perusal of the contracts, this doubt would be removed by the allegations of the pleader.

> (*Record*, p. 6). "And *it has been and is* the uniform custom of your orator * * * *to sell* such medicine, remedies and cures *to jobbers and wholesale druggists*, who in turn sell and dispose of the same to retail druggists * * *."
>
> (*Record*, p. 7). "Your orator has also, in each instance fixed * * * *the price thereof from your orator to the jobbers and wholesale dealers* and said price so established has uni-

formly been maintained and kept up * * *."

(*Record*, p. 12). "* * * your orator had stamped upon each package * * * a serial number for identification and placed in each package * * * *sold to jobbers and wholesale druggists* * * *."

(*Record*, p. 14). "* * * and such has been the custom and is the custom and understanding universally *in the purchase and sale of your orator's said proprietary remedies*, medicines and cures, *both on the part of your orator and of purchasing jobbers and retailers.*"

(*Record*, pp. 15-16). "* * * at the City of Cincinnati in the State of Ohio * * * are a *large number of druggists, wholesale* and retail * * * *who have purchased either from your orator or from jobbers and wholesale druggists* who have executed said wholesale contracts with your orator * * *." [Italics are our own.]

These averments, together with the many features of the contract inconsistent with any other interpretation, lead to the conclusion, regardless of its form and name, and the stipulations reserving the title in the manufacturer, that this is a contract of sale and not a contract of consignment. That these provisions, together with those for monthly accountings, the use of the terms of agency, and the fixing of a minimum price at which the petitioner's products should be sold are not inconsistent with a contract of sale appears in

> *Ex parte White* (1870), L. R., 6 Chan. App., 397, affirmed in *Towle* v. *White* (1873), 29 L. T., 78.

In this case the arrangements between the parties were in terms of agency. It was provided that the agent was not to pay unless he disposed of the goods. He was to

render monthly accounts of the sales made, and the following month, whether or not he had been paid by his customers, he was required to pay for goods sold according to the price list. The court said "It could never be supposed that the relation of creditor and debtor existed between the manufacturer and the retail dealer." Speaking of the agent, "the proceeds of the sales are his own monies and not trust monies." Again, "the contract of sale which the alleged agent makes with his purchasers is not a contract on account of his principal, for he is to pay a price which may be different, and at a time which may be different from those fixed by the contract. He is not guaranteeing the performance, by the persons to whom he sells, of their contract with him, which is the proper business of a *del credere* agent * * * and my opinion is that, in point of law, the alleged agent is making on his own account, a contract of purchase with his alleged principal, and is again reselling."

The House of Lords interpreted this contract as "when you have found a market you may sell on your own account, accounting to me for a certain price fixed."

The courts here assumed that the title remained in the manufacturer until the time of sale, but that simultaneously with or immediately prior to the sale the title passed to the so-called agent, so that between the agent and his vendee the sale was direct, and no sale or other relation of any character existed between the alleged principal and the vendee of the alleged agent. This interpretation was followed and approved in

Nutter v. *Wheeler,* Fed. Cases, 10384,

where Judge Lowell held that at the time of sale the so-called agent, became "as between him and the consignor, a purchaser of, and the principal debtor for the goods sold."

In the case of

The Peoria Manufacturing Company v. *Lyons*, 153 Ill., 427,

the contract differed from the case at bar in that the form of guaranty of sales was notes given by the so-called agent to his principal at the time of consignment. This corresponds to the enforced "advances" in this case. In addition, the credit notes of the purchasers from the "agent" ran directly to the manufacturer. The manufacturer retained the right to direct shipments to other points. The court held this a sale and not a consignment. So too in

Howell Son & Co. v. *Boudor Tr. et al*, 95 Va., 815,

a contract nearly identical with the one under discussion was held to be a contract of sale.

See, also,

Conn v. *Chambers*, 123 App. Div. (N. Y.), 298, unanimously affirmed in 195 N. Y., 538.
Yoder v. *Howarth*, 57 Neb., 150.
Mack v. *Drummond Tobacco Company*, 48 Neb., 397.
Aetna Powder Company v. *Hilderbrand*, 137 Ind., 462.
Gendre & Co. v. *Kean*, 28 N. Y. Supp., 7.
Arbuckle Bros. v. *Kirkpatrick & Co.*, 98 Tenn., 221.
Arbuckle Bros. v. *Gates & Brown*, 95 Va., 802.
Williams v. *Drummond Tobacco Company*, 21 Tex. Civ. App., 635.
Snelling, Assignee, v. *Arbuckle Bros.*, 104 Ga., 362.
Norwegian Plow Co. v. *Clark*, 102 Ia., 31.
De Kruif v. *Flieman*, 130 Mich., 12.

An analysis of the contract in the light of the foregoing authorities reveals the following terms inconsistent with a contract of consignment and consistent with a contract of sale only.

(1) Unsold goods are returnable upon the demand of the manufacturer only, the "consignee" not having the corresponding privilege.

(2) Terms such as to compel payment before goods are sold.

(3) Provision for the repayment of advances at the option of the manufacturer only.

(4) Compulsory payment of the whole account upon breach of certain conditions.

(5) Acountability to the manufacturer before the proceeds are received from the "agents' " vendees.

(6) Option in "consignee" to sell at higher than list prices.

In addition to the inspection of the "consignment" contract, the retail contract reveals that the manufacturer disclaims any direct relation in sales to the retail dealer, carrying the disclaimer so far as to ship on the account of the wholesale dealer only, even when shipments are made by it directly to the retail dealer.

On examination of the bill of complaint it appears that the dealers with whom these "consignment" contracts are made are not brokers, factors or agents, but in their customary dealings are general merchants buying and selling on their own accounts. It is apparent that it is not intended that such dealers should hold the proceeds, or any part of the proceeds of their general acocunts in trust for the petitioner and apart from their general business, but that it is the intention of the petitioner to look for payment to these dealers only and not to the proceeds of particular sales.

Second: The Contract is Not One of Agency. In exhausting possibilities, but three interpretations could be claimed for the contract: First, a contract of immediate sale to the consignee; second, a contract of agency; and third, an anomalous contract combining some of the features of each, and resolving itself into partial contract of agency, up to the time of sale, and then being a contract of sale directly to the "consignee."

Of these three interpretations, the respondent contends for the first. It claims that the contract is one of immediate sale, with a condition that the title may be made to pass back under certain conditions, by the action of the parties; that the contract, of itself, may or may not be of such character as to enable the petitioner to obtain specific performance, but that it is not of such character as to enable the petitioner to secure the return of the goods by an action in replevin, and that it is not of such character as would give the petitioner an equitable or legal lien upon the goods or their proceeds in the event of the bankruptcy of the "consignee."

However this may be viewed by the court, it is submitted that the second interpretation (contended for by the petitioner) is untenable, and that the third interpretation is the only alternative. If the third interpretation is correct, the sale from wholesale dealer to retail dealer is a sale by the dealer and not by the manufacturer. Under either the first or third interpretation, the restrictions sought to be imposed by the petitioner are restrictions upon the alienation of property to whose transfer, at the time of such alienation, petitioner is not a party.

Upon this point the U. S. Circuit Court of Appeals said:

"But we are not disposed to concede that the contracts with jobbers are contracts of bailment. There are too many features which seem inconsistent with the mere agency or commission agreement. All the responsibility of an owner seems cast upon the so-called consignee * * *. The retention of title for the security of the price would after all make the contract one of conditional sale and the jobber would still be the general owner and responsible as such. Curiously enough the actual payment of the price at which the consignment is billed is not to affect the title, it is still under the contract to remain with the so-called consignor. Yet the heavy inducement of five per cent, upon a very close class of goods is held out to induce the payment in advance of sales. It is difficult to believe * * * that such jobbers were not in fact and law the general owners of goods so 'consigned' and engaged in selling for themselves and not as mere agents, *del credere* or otherwise, of the complainant. The scheme seems to be an effort to disguise the wholesale dealers in the mask of agency upon theory that in that character one link in the system for the suppression of the 'cut-rate' business might be regarded as valid." (*Record*, pp. 30-31.)

Third: The illegal system presented by the bill of complaint if the wholesale contract be deemed a contract of agency.

Assuming that the "consignment" contract is legally a contract of agency, it is nevertheless but one link in a "system" whose enforcement is sought in this cause. Apparently the theory of the petitioner is that the common and statutory laws against restraints of trade become debilitated and ineffective if such restraint is sought

through the medium of "agency." This theory is contrary to established law. The authorities cited in support of petitioner's theory are in every instance isolated contracts of agency, so far as appears, not part of any system or scheme. In each of these cases the court holds that the contract is not within the terms of the local statute. In this cause, the agency contract is but incidental to the general scheme. The bill alleges that the injury arises from the sales at competitive prices to the ultimate consumer. The system is alleged to have been adopted to prevent this injury. The wholesale dealer does not sell to the ultimate consumer, hence the contract with him is but a means of insuring the suppression of competition among the retail dealers. The bill admits that the retail dealer is a purchaser, not an agent; the object of the system is to enforce price restricting conditions in the sale of products to which the person imposing such conditions has no title. This system is within the prohibition of the authorities hereinbefore cited. This was the conclusion of the Court of Appeals. (*Record*, p. 30.)

Although every act and every part of appellant's system, taken by itself, were lawful, still if the object and effect of the system as a whole were unlawful, it would be unenforcible.

Swift & Company v. *U. S.*, 196 U. S., 375, at 396.

Justice Holmes, in delivering the opinion of the court, says:

> "It is suggested that the several acts charged are lawful and that intent can make no difference. But they are bound together as the parts of a single plan. The plan may make the parts unlawful * * *. The unity of the plan embraces all the parts."

In the case of

Atkins v. *Wisconsin*, 195 U. S., 194, at 206:

"No conduct has such an absolute privilege as to justify all possible schemes of which it may be a part. The most innocent and constitutionally protected of acts or omissions may be made a step in a criminal plot, and if it is a step in a plot, neither its innocence nor the Constitution is sufficient to prevent the punishment of the plot by law."

VI

QUESTIONS RAISED BY THE DEMURRERS.

First: Whether the petitioner has any peculiar, special or exclusive right in the articles manufactured by it, warranting it to carry out, with reference to their sale, a plan or scheme which would otherwise be invalid and illegal.

In view of the above discussion, it is submitted, the only remaining possibility of a right of the petitoner to assert any such restrictive right as it claims, turns, as a matter of reason, upon whether it has offered the articles which it manufactures under its trade secrets for general trade or is selling them to the general public, and, as a matter of authority, upon whether the decisions heretofore obtained by counsel for the petitioner in other cases are in any sense controlling in this cause. It is submitted that their weight depends entirely upon the force of their reasoning upon the principles herein presented.

The petitioner relies upon the cases

Dr. Miles Med. Co. v. *Goldthwaite*, 133 Fed., 794,

Hartman v. *Hughes*, ———,

Dr. Miles Med. Co. v. *Platt, World's Dispensary Med. Ass'n* v. *same, Hartman* v. *same,* 142 Fed., 606,
Wells & Richardson Co. v. *Abraham,* 146 Fed., 190,
Paris Med. Co. v. *Hegeman & Co.,* ———,
Hartman v. *Hobart,* ———,
Dr. Miles Med. Co. v. *Jayne,* 149 Fed., 838,
Jayne et al v. *Loder,* 149 Fed., 21.

The case of *Dr. Miles Med. Co.* v. *Goldthwaite* would appear from the statement of facts to be a decision sustaining a general scheme such as set forth in the bill in this case. This statement of facts is not warranted by anything in the opinion of the court, but is drawn by the reporter from the brief of complainant. The case was moreover submitted on default without any opposing brief, and hence without any attempt to call the attention of the court to the correct and proper principles of the law applicable to a decision of the case. The court refers for authority simply to the opinion in the case of

Sperry v. *Mechanics' Clothing Co.,* 128 Fed., 800,

which, as we have seen above, is one of the trading stamp cases, where the right involved is entirely different from that in this case, and where a proper consideration of the basic principles involved, shows that case to be entirely in harmony with the proposition which we are advancing, and hence no authority to support any such position as the petitioner takes. This, of course, makes it manifest that Judge Colt did not have the real facts of the case called to his attention. It can not for a moment be assumed that he would have undertaken, without consideration or opinion, to have overruled such basic principles and distinctions as we are here contending for, nor the

long and conclusive line of decisions of the Supreme Court of the United States and other courts of last resort, in which the same have been sustained.

The same conclusion is applicable to

Dr. Miles Med. Co. v. *Jayne*, 149 Fed., 838.

In this case the same judge who decided the *Goldthwaite* case held the contract system to be legal, basing his decision upon the identity of the rights of owners of trade secrets with those of owners of patents or copyrights, and citing in support of this decision the *Goldthwaite* and *Platt* cases in the same citation with, and without distinction from patent, news and cases involving trade secrets, wherein the decisions related to restrictions upon the use of the secrets, and did not relate in any way to the articles manufactured thereunder.

Judge Kohlsaat's decision in the case of

Dr. Miles Med. Co. v. *Platt*, 142 Fed., 606,

is subject to the same criticism.

The questions and authorities which we advance and our views in these respects, which were sustained by the court below in this case, were clearly not called to the attention of Judge Kohlsaat.

The cases *Hartman* v. *Hobart*, *Hartman* v. *Hughes* and *Paris Med. Co.* v. *Hegeman* are unreported cases. The *Hobart* case affirms the right of the complainant without discussion, and overrules the demurrer. It does not appear that the questions herein discussed were presented or considered by the court. The *Hughes* case overrules a demurrer and grants a preliminary injunction, substantially in the terms of the prayer of the bill. There is no opinion, nor is there any foundation for the assumption that the court considered the issues herein presented.

In the *Hegeman* case, Judge Lacombe granted a preliminary injunction upon the authority of *Wells & Richardson* v. *Abraham*, shortly to be considered. On appeal, decision was reserved, although the court did adopt the opinion of Judge Thomas in the *Wells & Richardson* case, and dissented from the decision of the Court of Appeals in the case at bar.

The court rested upon its own opinion as delivered in

Wells & Richardson v. *Abraham*, 149 Fed., 408,

wherein the sole reference to the opinion of Judge Thomas was:

> "Upon the principal question argued we are not convinced of the unsoundness of the conclusions of Judge Thomas as expressed in his opinion in the court below, and see no reason from departing from our usual custom not to formulate an extended opinion on appeals from orders for preliminary injunctions where we affirm the court below unless we disapprove the reasoning of its opinion."

One is somewhat surprised in reading the opinion of Judge Thomas in

Wells & Richardson v. *Abraham*, 146 Fed., 190,

to find that this opinion proceeds upon the assumption that the contract system in issue was legal; an assumption in which the court was warranted by the concession of counsel for the defendants.

Upon this point the court says:

> "But has the complainant a remedy in this suit? The contracts with the complainant's vendees are legal. Resort need not be had to the voluminous briefs submitted, for the defendants in their briefs say:

"'The validity of these contracts as between the parties, is nowhere attacked.' On the contrary, the whole argument proceeded on the theory that, though as between the parties thereto such contracts could probably be enforced, third parties who did not assent thereto, and, who were under no contractual obligation to the complainant, could not in the absence of proof of fraud or conspiracy, be compelled to observe such contracts, in the case of articles made under secret processes, any more than if such articles were not made under secret processes, and that the patent cases which granted such remedy had no application to the case at bar.

"The concession as to the legality of the contracts accords with the decision in *Park* v. *National Wholesale Druggists' Association*, 175 N. Y., 1; *Garst* v. *Harris*, 177 Mass., 72; *Garst* v. *Charles*, 187 Mass., 144."

So far as Judge Thomas adds authority to the concession of the defendant, it is apparent that the distinctions herein urged were not considered, inasmuch as the court cites indiscriminately the cases based on trade secret rights and that based upon patent right, whose differentiations have been hereinbefore fully discussed. The principal question argued was not the legality of the contract system but the right to an injunction upon the assumption of legality; hence the Court of Appeals, in stating that it was not convinced of the unsoundness of Judge Thomas' conclusions on the principal question, made no reference to the decision upon the principal question in the case at bar. Consequently, the Court of Appeals, in re-adopting its *Abraham* opinion in the *Hegeman* case and upon this basis taking issue with the opinion of the Circuit Court of Appeals in the case at bar, in an oral decision deilvered at the close of argument, could scarcely

be deemed to have given full consideration to the questions herein at issue.

It is apparent from the above analysis of the decisions secured by counsel for the petitioner herein in other cases, that the first decision was obtained in the uncontested *Goldwaithe* case, wherein the court found its support in the authority of a trading stamp case which, as we have seen, does not deal with an article which from its nature could ever be the subject of general commerce and hence governed by general commercial law. This was followed by the *Platt* case, wherein the court cited the *Goldwaithe* case as direct authority, and recognized no distinction between the rights of owners of patents or copyrights and those of the owners of trade secrets. This in turn was followed by the *Abraham* case, wherein the legality of the contract was conceded by the defendants and the principal contest was upon the right to an injunction. The *Hegeman* case followed next in order and was based entirely upon the "conceded" *Abraham* case. In the affirmance of these cases, the Circuit Court of Appeals had no occasion to consider with any degree of thoroughness the issues raised in the case at bar, nor, as appears from the opinions themselves and from the circumstances surrounding their delivery, was this thorough consideration given.

In addition to the cases hereinbefore discussed, the petitioner cites in support of its proposition:

> *Jayne* v. *Loder*, 149 Fed., 21.
> *National Phonograph Co.* v. *Edison-Bell Company*, L. R. (1908), 1 Chan. Div., 335.

In the former case the precise question for decision was whether or not the manufacturers of proprietary medicines had entered into an unlawful conspiracy to restrain the trade in their and other products. The

court decided this question affirmatively. In the course of its decision it said:

> "Undoubtedly the originator and compounder of a proprietary medicine may shape his own policy and sell or withhold from selling as he pleases, according to supposed self-interest or whim; fixing the price and naming the terms and conditions at and upon which alone he will do so, refusing to those who will not comply."

The petitioner seizes upon this isolated excerpt as support for its contention. It is almost unnecessary to note that the bill of complaint is not based upon the right of the petitioner *to refuse to sell his products to any one and for any reason,* or for no reason at all. This is the sole right affirmed in the citation and is not at issue in this cause. That this is the limit of the court's expression appears from the reiteration of the principle when the court says:

> "The individual manufacturer or proprietor may be persuaded, for example, that the retailer or jobber who cuts the medicines of his neighbor today will likely cut his medicines tomorrow, and so decide not to sell him. * * *"

In the *National Phonograph Company* v. *Edison-Bell Company,* the "price and sale restrictions" were upon patented articles. The question of illegality on account of restraint of trade was not argued.

> "Although the subject was mentioned, I can not say the question whether the so-called retail dealer's agreement is or is not invalid as being in restraint of trade was really argued before me. I do not therefore propose to discuss it." (Joyce, J., p. 347.)

An injunction forbidding purchases from "Retail Agents" was refused. The injunction granted was not the relief sought in this cause, but was

> "to restrain the defendant company, their servants and agents, from inducing any person or firms who have entered into factor's agreements with the plaintiff company *by representing or leading to the belief that the purchaser is not the defendant company*" (pp. 362, 371). [Italics our own.]

This injunction was granted because of the damage done through subsequent sales of records of the defendant's own manufacture, for use in the phonographs manufactured by the plaintiff, which phonographs had been procured by deceiving the plaintiff's factors. So far as this case is relevant to the issues in the case at bar, it is an authority against the relief sought by the petitioner.

There is no reasoning upon the principal question herein at issue in any of these cases to aid this court in arriving at its determination. These cases, and any other cases at nisi prius or elsewhere, from which the petitioner may attempt to derive the proposition that it has the right to maintain a monopoly in the subsequent trade in articles manufactured by the use of its unpatented trade secrets, which would be unlawful in the absence of such trade secrets, are, in so far as they may be said to support this proposition, so directly contrary to the overwhelming weight of those authorities in which this question has been given thorough consideration, that they could not in that event be regarded as of any weight or importance. As was said by the Court of Appeals, in referring to such of these cases as were called to its attention:

"The ground upon which the two contested cases * * *, was rested was the identity between the rights of a patentee and the owner of a mere trade secret or private formula with respect to the product or manufactured article * * * *.

"If we are right in our conclusion that the manufactured product of a trade secret or private formula is not immune from the common law rules forbidding monopolies and unreasonable restraints of trade, the cases above referred to must be disapproved, at least in so far as they are grounded upon the cases which deal with articles made under patents or copyrights." *John D. Park & Sons Co.* v. *Hartman*, 153 Fed., 24, at pp. 34-35. See, also, *Record*, pp. 31-32.

The petitioner may contend that its articles are no more the subject of general commerce than are undisclosed trade secrets, news, or railway transportation contracts.

Under the allegations of the bill this fact can not admit of doubt or discussion. In fact the petitioner goes to the extent of saying, that, by advertising and exploiting the trade in its goods, it has created a demand for them throughout the entire United States and in foreign countries, and that it has been its uniform custom for years to sell them to the wholesalers, whence they are ultimately sold to the consumers, and that *the general public* are in the habit of asking for and obtaining these articles. It would be impossible to more distinctly aver a complete offer to the public use and corresponding abandonment of any possible restrictive rights than the petitioner has done in the bill in this case.

Nor can it be claimed that because it simultaneously appears from the bill that the articles are, now at least,

disposed of by it, in the first instance, under restrictions as to price under which the wholesaler shall sell them, and the retailer resell to the consumer, that that fact in any way alters the situation, or makes what it is doing any less an abandonment of any restrictive right, if such had existed.

The goods are ultimately sold generally to the general public. *The price at which they are sold does not make the transaction any the less a sale,* nor whether the initial sale is to the wholesaler or retailer, is it any the less a sale, because it is under contract as to the price at which they shall be resold, nor because they are sold only to such dealers as will make such contracts. *The situation still remains one of a sale and offering for sale of the goods, which, under the authorities, constitutes an abandonment of any exclusive right.*

It would be manifestly absurd to say that the petitioner can offer its goods for general public sale and establish and build up a general public trade therein, thereby subjecting the determination of the legality of any contracts which it may make with reference to such sale to a decision in accordance with general common law principles, and at the same time claim, that, because it is imposing upon such sale the very conditions the legality of which must be determined by common law principles, it is thereby exempted from an application of such principles.

It has moreover been expressly decided that a person can not by such subterfuges escape the fact of a publication, nor the loss of his exclusive rights.

In the case of

Jewelers Mercantile Agency v. *Jewelers' Pub. Co.,* 155 N. Y., 241,

certain books were distributed under so-called agreements of lease, by which an attempt was made to retain

title and give the situation the apparent appearance of a restricted and private circulation. The Court of Appeals held that the common law right could not be retained by any such subterfuge, saying:

> "By this method a party parts with the secret in such a way that the public may know it, provided the individuals composing such public are willing to become subscribers and lease the book. And, if leasing books to the public generally does not constitute a publication of them, then an author or publisher would have but to extend the period of leasing from one year to ninety-nine or nine hundred and ninety-nine years, as is the case in certain leasings of railroads, in order to secure almost as many leases as there would be purchasers if the books were offered for sale. The buyer of the average book would be quite content with a restrictive title, which, nevertheless, assures him the possession of a book for either of the periods mentioned. It has not hitherto been understood to be the law that the common law right could be so utilized as to secure to an author or publisher a continuing revenue from the public for a much longer period of time than Congress has been willing to grant to him the exclusive right to publish.
>
> "But our examination leads us to the conclusion that the present state of the law is that if a book be put within reach of the general public, so that all may have access to it, no matter what limitations be put upon the use of it by the individual subscriber or lessee, it is published, and what is known as the common law copyright, or right of first publication, is gone."

In the case of

Larrowe v. *O'Loughlin,* 88 Fed., 896,

the complainant had no copyright, but had been in the

habit of selling his work under certain restricted agreements as to its use. The Circuit Court for the Southern District of New York held that this was a complete publication, saying:

> "I think this distribution amounted to publication. To hold that a person may offer a book to every person in the world who will buy it and pay a certain price for it with an agreement not to show it to any other person, and that this course of distribution might be continued for many years, and then a copyright secured for the legal term, would be a large advance upon, and wide departure from, any decisions which have been cited in this case. In most, if not quite, all the cases in which a distribution has been held not to be a publication, the author did not part with the title to the books distributed."

It is manifest that what the petitioner does in this case is even more a giving to the public use than what was shown by the facts of the cases cited. It makes a general sale to anyone signing the contracts; its allegation is that such contracts have been signed by nearly all the wholesalers and retailers in the United States; and the only restriction imposed relates, at least so far as the retail dealer is concerned, not to any reservation of title, but solely to the price of resale.

This position on our part is very clearly sustained by the court below in holding that control could not be retained over articles sold outright by a limiting license to resell, and that the petitioner has hence no exclusive or peculiar right in any way, or the right conferred by the patent and copyright laws of the United States, but merely the right to make such contracts with reference to the sale of its goods as are not unlawful, in the absence of special right.

The attempt of the petitioner in this case is manifestly not only to acquire, without taking out a patent, rights which are only given under the patent and copyright laws, but to do that without complying with the condition on which alone such right can be obtained under such laws, to-wit: the abandonment of the right after a fixed period of time.

In fact its attempt is to maintain a scheme which would give it for an unlimited period of time, or for all time to come, a right which the courts have uniformly held can only be obtained for a limited period of time under the patent and copyright laws.

The attempt of the petitioner by the present action is to obtain legal sanction for such unlawful position, and for that purpose, and in order to thereafter say that the right was fully sustained for all time to come, it flaunts, as it were, in the face of the court the fact which really constitutes a complete publication and abandonment of any such right. Can it be that the petitioner hoped to establish so astonishing a proposition and to thereby obtain rights to which it is so clearly not entitled, on the chance that the court would not have called to its attention the basic and fundamental principles and distinctions upon which the question must be determined, and under which the petitioner, by an overwhelming weight of authority, has no such restrictive rights as it contends for?

The petitioner in this case has no restrictive or exclusive right to establish or to maintain any control over the trade in its goods that is unlawful in the absence of such exclusive right. The courts below clearly held against it upon this question, and we are firmly convinced that on a review of the authorities this court will not, by judicial sanction, lay the foundation for any such right.

Whether what the petitioner is doing and attempting to do with reference to maintaining a control over the trade in its goods by its vendees is or is not unlawful, and whether the court will, or will not, therefore, aid it in carrying out the particular scheme which it sets forth in its bill, is a question which must be determined with refence solely to the general principles by which at common law, and under statutes, such contracts and agreements and schemes are or are not illegal and unlawful.

Second: Whether the plan or scheme disclosed in the bill, is, in the absence of special right, valid, or illegal and unlawful.

This is the primary question, the basis of the general demurrer to the bill. It being clear that the petitioner has no special, peculiar or exclusive right, entitling it to establish and maintain a restrictive monopolistic control of the trade in its articles after their sale by it, it follows that the lawfulness of the petitioner's system of contracts must be determined solely with reference to the ordinary principles of common law and the statutory provisions defining and establishing that which is unlawful as in restraint of trade. In this conclusion both of the courts below agreed.

The respondent's contention, which will be presented as briefly as the numerous authorities on the subject will make psssible, is that the system of contracts and scheme of control set forth in the bill is unlawful both at common law, under various statutes, and especially under the provisions of the Federal Statute known as the Sherman Anti-Trust Act.

A. The Scheme and System of Contracts Set Forth in the Bill is Unlawful, Because its Recognition and Enforcement Would be Establishing, by the Aid of the Court, a Right Which the Petitioner Has Not and Can Not Acquire, Except Under the Provisions of the Patent and Copyright Laws of the United States, and on Compliance With Their Conditions.

As we have seen above, the distinction—with reference to the lawfulness or unlawfulness of such a system of control over the subsequent trade in the articles manufactured—between the rights of persons who have availed themselves of the patent and copyright laws of the United States, and persons who have not, and who have, consequently, only the common law rights of any person, is exactly the right of the former to establish and maintain a control over the subsequent trade in their articles which is unlawful if exercised by persons who are not entitled to the benefits which accrue under the patent or copyright laws.

It has been repeatedly and emphatically said by the courts of last resort, that this right can only be acquired by complying with the conditions of the patent and copyright laws, and for a limited period of time.

This being true, it follows inevitably that such right can not be acquired by judicial decree; and that it is clearly beyond the power of the court by judicial sanction to create and establish a right which can only be acquired under Acts of Congress and on compliance with certain conditions therein specified.

Not only, therefore, should the court refuse relief that would necessarily involve the sanctioning and establishing of a right that has no legal existence, but it follows as

an inevitable conclusion, that, as the petitioner has not acquired a lawful right to do that which it is doing, by complying with the provisions of the copyright and patent laws of the United States, but is attempting to evade the provisions of these Acts of Congress and to accomplish by another method that which Congress has said can only be done under certain conditions which it is apparently unwilling to comply with, that which it is doing is necessarily unlawful.

The situation of the petitioner, as clearly appears from the authorities above cited, is, that having preserved the secret of its formula and processes, it has as yet a sole and monopolistic right to manufacture thereunder, but has no exclusive right of control over the articles which it manufactures and sells to the general public, and which it has thereby made general articles of trade and commerce.

The patent and copyright laws confer, as we have seen above, rights which are in derogation of the common law, and which exempt their owners from being subject to what Mr. Justice McLean states, in the case of *Wheaton* v. *Peters,* 8 Peters, 591, to be the common law rule, to-wit: "That the ordinary right of every man to enjoy the fruits of his labor is subject to the common rules which regulate society and define the rights of things in general."

The patent and copyright laws confer these rights only on condition that the provisions of the act be complied with by conceding to the general public the free and unlimited right of the invention or work after a limited period of monopoly.

It clearly appears from all the cases in which patentees and holders of copyrights have been said to have, by virtue of such laws, a right of maintaining a monopoly and

control over the subsequent trade in their articles, that any attempt so to do would be unlawful on the part of anyone not having that exclusive right, and hence that the petitioner in this case is attempting to enforce exactly that which is unlawful.

In the leading case of

Bement v. *National Harrow Company*, 186 U. S., 70,

the right to do exactly what the petitioner is seeking to do in this case was held to be lawful solely because it was a right of monopoly given by the patent laws.

In like manner in the cases of

Edison v. *Kaufman*, 105 Fed., 960;
Edison v. *Pike*, 116 Fed., 863;
Victor Talking Machine Co. v. *The Fair*, 123 Fed., 424;
Park v. *N. W. D. A.*, 175 N. Y., 1,

schemes of controlling the subsequent trade in articles, and fixing the prices at which they should be resold by vendees, identical with what the petitioner is here attempting to enforce, were held to be lawful solely because that was a right of monopoly given by the patent laws alone.

We have already pointed out that the decision in the case of *Park* v. *N. W .D. A.*, 175 N. Y., 1, must be regarded as based solely on the exclusive rights given under the patent laws, it being said by the same court, in the case of *Strauss* v. *American Publishers' Association*, 177 N. Y., 473, that such was the sole ground of the decision.

The conclusion that to attempt to carry out such a scheme as the petitioner is here seeking to do would be unlawful on the part of anyone who has not a right to

the benefit of the patent and copyright laws, appears conclusively from the following cases:

Strauss v. *American Pub. Assn.*, 177 N. Y., 473;
Gamewell v. *Crane*, 160 Mass., 50;
Vulcan Powder Co. v. *Hercules Powder Co.*, 96 Cal., 510;
Tecktonius v. *Scott*, 110 Wisc., 441;
Pasteur Vaccine Co. v. *Burkey*, 22 Texas Civ. Apps., 231;
Fox Solid Pressed Steel Co. v. *Schoen*, 77 Fed., 29,

in all of which cases attempts to carry out exactly such schemes as petitioner here sets forth, with reference to articles not patented, were held to be unlawful.

Nor do the decisions in the cases of

Walsh v. *Dwight*, 40 App. Div., 513;
Elliman v. *Carrington* (1901), 2 Chan., 275,

in any way affect the conclusion which must inevitably be drawn from the cases first referred to. As we have already pointed out the decision in the *Walsh* case was expressly, and in the other case necessarily, based upon the fact that the contracts in question did not affect the general trade in such articles, whereas in this case it is apparent from the allegations of the bill that the scheme relates to and affects and controls the entire trade in an articles of general trade and commerce.

Nor is there anything at all contrary to this proposition in the decision in the case of

Heaton, etc., Co. v. *Eureka Specialty Co.*, 77 Fed., 288.

In this case it was held that patent rights on certain machines for making shoes gave a right to the owners thereof to impose upon the purchasers the restriction that only certain fasteners should be used with such machines, notwithstanding the fact that thereby possibly a

monopoly was created in such fasteners, which were not patented. On examination, however, this case will not be found to lay down any rule recognizing the rights of persons not holding patents or copyrights to establish a monopoly. In fact what the court speaks of as an incidental monopoly in the unpatented fasteners will not, on examination, be found to be such at all. There was nothing preventing anyone else from manufacturing such fasteners, nor anything preventing anyone from manufacturing any other kind of fasteners. The condition simply was that no fasteners, except those manufactured by the owners of the patent on the machine, should be used with the machine. If persons manufacturing the same or other fasteners were unable to dispose of them because they were not available for use with any other machine, this would be simply a consequence of the exclusive rights which the patentees had in the machine.

Nor is there anything contrary to the proposition which we are here discussing in the fact that, in certain cases above referred to, the particular contracts under consideration in each were held to be not only permitted under the patent rights of the parties, but also otherwise lawful.

That a patentee may make a contract which is lawful at common law does not warrant the converse of the proposition, i. e., that persons having only common law rights can make a contract warrantable only under the patent and copyright laws.

By the express decisions, therefore, and especially the cases which sustain the rights of patentees and holders of copyrights to establish and maintain restrictions and conditions with respect to, and a control over, the trade in their articles which would otherwise be unlawful, *it must be regarded as conclusively settled that such*

rights do not exist in favor of, and can not be claimed or exercised by, any other person, or as to any other species of property.

To hold to the contrary would, in fact, be imputing to the Justices of the Supreme Court of the United States, and to those of the other Federal and State courts, who have considered and sustained such rights on the part of the patentees and the owners of copyrights as being a part of the right of monopoly conferred upon them by the patent and copyright laws of the United States, the great absurdity of having regarded as exclusive and as rights founded only on such laws, what were really the common law rights of every one. To reach a conclusion contrary to the proposition which we are here advancing, it would be necessary to overrule the express and authoritative decisions, and the basic and underlying principles involved, in every case in which the rights conferred by the patent and copyright laws of the United States have been considered.

The identity in fact of that which the petitioner is doing in the present case and that which the courts, and especially the Supreme Court of the United States in the cases above referred to, have held to be lawful on the part of patentees and the holders of copyrights solely because of the right derived under the patent and copyright laws, makes the scheme and system of control over the subsequent trade in its articles which the petitioner sets forth in its bill necessarily unlawful under the conclusive and binding authority of these decisions; and any decisions to the contrary are in direct conflict with these authorities, which are controlling.

Nor is the argument attempting to avoid this conclusion at all sufficient.

The distinction which it is attempted to draw between the right of a patentee or the holder of a copyright to exercise such control, which would otherwise be unlawful, by a system of licenses, which, it is said, is a right solely derived from the patent and copyright laws and can be exercised by no one else, and the right of other persons to do identically the same thing by a system of contracts, which would not then be unlawful because the right of contract is a common law right, is based upon a fallacy of argument, the weakness of which we have already pointed out.

To attempt to so distinguish between a license and a contract *is to mistake the form for the substance of the thing,* and to overlook entirely the real question at issue, which is one of the right to do, by contract or otherwise, that which is unlawful in the absence of affirmative grant. The common law right of contract does not involve a right to contract in an unlawful manner. This right to do something, by contract or otherwise, which is unlawful at common law is a right derived only from the patent and copyright laws, which can not be exercised except under these laws.

The facts in this case being identical with what were held, in the cases above referred to, to be lawful solely because of the rights derived from the patent and copyright laws, the necessary conclusion is that what the petitioner is doing in this case is unlawful.

B. The Control Which the Petitioner is Attempting to Maintain Over the Subsequent Trade, by its Vendees, in the Goods Manufactured by it, is in General Restraint of Trade and is Therefore Unlawful at Common Law.

The principle of the common law here invoked is funda-

mental. It has sometimes been supposed to have had its origin in the antagonism, during the middle ages, to that system of control of trades and professions known as the guilds; possibly a good deal of the uncertainty which existed, at times, with regard to the correct application of this doctrine, has arisen from this idea as to its origin. This principle of common law is, however, of much greater antiquity. Its connection with the questions affecting the guilds, and the use and application of its principles to their suppression, was incidental only. But because this class of questions was the one largely presented by the economic situation for several centuries, and at the very time English law became a matter of written record, it was only that phase of the doctrine which for a long time became a matter of record and reports. It was merely a consequence of the particular class of cases which arose that lead the courts to inquire largely into the limitations of the restraint an individual could lawfully impose upon himself, in view of public interest, and not into the limitations of restraint upon public trade, to which the doctrine really applied. The result was that definitions were advanced, as statements of the general rule, and many so-called exceptions were applied, that were really merely corollaries to the general principle.

Within the last quarter of a century, however, the change in the character of the economic questions presented to the courts has necessitated an examination of the full scope of the principles involved in this doctrine, and it has been clearly recognized that, in its application to trade, and in its proper use to suppress and prevent any restraint injuriously affecting public interests in trade and commerce, the doctrine is still in force and effect and must be maintained and strictly applied as one of the most basic principles of law and the most fundamental bulwark of economic liberty.

The same tendency of the times has found its expression in the numerous statutory enactments, reaffirming the principles of the common law.

Without regard to the effect of such recent statutory enactments on the subject, the principle is clearly recognized by all the courts as a fundamental doctrine of common law, that any general restraint of trade, or any restraint of the entire trade of an article of commerce, or any restraint which affects a sufficient amount of trade *to be of injury to the public*, is unlawful and that any contracts or agreements, having that effect or purpose, are illegal.

The primary test of what is unlawful at common law, as in restraint of trade, is the effect of the restraint upon public interests. Any classification of permissible restraints must respond to this basic test, and all subordinate bases of such classifications must imply, as a primary premise, that the public interests are not injuriously affected by the permitted acts.

A careful analysis of the numerous authorities upon this subject discloses that the ruling cases respond to the above test. There is some slight confusion in terminology—a confusion arising from the paucity of our language rather than from lack of definite thought. Restraints are referred to as "general" and "partial." The facts to which these terms have been applied show conclusively that "general" is not used as synonymous with "total," nor does "partial" mean "fractional." "General" is used whenever the restraint affects the general public interests. "Partial" is used when the restraint affects primarily the particular interests of the individual, without being so extensive as to affect injuriously the general interests of the public. Thus a fractional restraint is "general" if it is of such magni-

tude as to affect the public; a total restraint is necessarily "general" if it covers any subject of general trade and commerce.

From these premises two broad propositions are to be deduced:

1st. General restraints of trade are always unlawful.

2d. Partial restraints of trade are sometimes legal.

Under this second division falls an extensive subordinate classification, because, although the public interests, in the commercial sense, may not be directly affected by the restraint in question, still the public is interested in preventing the individual from restraining himself in the free exercise of his energies beyond what the circumstances of his case may reasonably demand. Hence, when once it has been determined that the restraint is not of sufficient breadth to injuriously affect the commercial-economic interests of the public, *i. e.*, that is partial, the further question must be determined whether the restraint is of such character as to affect injuriously the individual-economic public interests, in restraining an individual more than the circumstances of the transaction make reasonably necessary.

There is no logical foundation for a classification based upon whether the act in question is done by one, two or many. It is true, generally speaking, that a combination can more effectively do injury to the public than can the individual, but if the circumstances are such that an individual can do and does injury to the public interests by restraints of trade, his acts are as unlawful as those of the combination accomplishing the same results. For example, the petitioner herein can not combine with any other manufacturer, for it is the sole manufacturer of its product and will continue to be such as long as it preserves its secret. But if there had been other manufac-

turers with whom it had combined, they could not have exercised any greater control over the trade in the articles which it manufactures than it, individually, has already established; hence, if the control which the petitioner has established would have been unlawful, as in restraint of trade, if accomplished by a combination, it is equally unlawful if established by the petitioner without combination. As a basis of classification the presence or absence of combination is immaterial.

As the above outline would indicate, it is apparent that a restraint of trade may affect the public directly, or the interests of the parties to the contract or agreement directly, and the public only indirectly. The illegality of the contract or agreement may arise upon either ground.

> *2 Parsons on Contracts* (7th Ed.), p. 887.
> *Alger* v. *Thatcher,* 19 Pick., 51.

Although there are not many cases in which these distinctions have been expressly considered, their existence has been assumed in every case in which partial restraints of trade have been under consideration, and have been expressly recognized in cases whose weight and authority are conclusive.

Thus in the case of *Fowle* v. *Park*, 131 U. S., 88, the court said:

> "Public welfare is first considered, and if that be not involved and the restraint upon the one party is not greater than the protection of the other requires, the contract may be sustained."

Again, in the case of

> *Central Transportation Co.* v. *Pullman Car Co.,* 139 U. S., 24, at p. 53,

the Supreme Court of the United States, referring to the class of cases in which partial or reasonable restraints

of trade are upheld, expressly said that the basis of the rule is that the public is not interested in the question. The same general principle was distinctly laid down in the case of

Vickery v. *Welch*, 19 Pickering, 523,

where the court sustained a contract by which a secret process was to be preserved because it was of no consequence to the public whether the secret be used by the plaintiff or the defendant; that the interest of the public was in having a trade in the articles free and unrestrained; and that its interests were not affected by a transfer of the sole right to manufacture from one person to another.

An examination of the cases in which a partial restraint of trade has been sustained as reasonable, will show that they all rest upon the express statement, or upon the assumption, that the restraints are partial only and the interests of the public not injuriously affected.

Thus in the case of

U. S. v. *Addyston, etc., Co.*, 85 Fed., 271,

Judge Taft, in giving a classification of the cases in which restraints are upheld, prefixes it (at page 281) with the words:

> "Covenants in partial restraint of trade are generally upheld as valid when they are agreements," etc.

This opening part of the sentence, necessarily limits the entire classification. The language used by Judge Taft and the intention of the court in that opinion is very clear, that it is only where the restraint in question is a partial one, *i. e.*, where public interests are not injuriously affected, that the classification and principles therein involved have any application.

Authorities in support of these views might be multiplied, but we believe that the above cases, in view of their weight and authority, are sufficient to show that the primary inquiry is as to the injurious effect of the restraint upon public interests; that the distinction between a general restraint, which is always unlawful, and a partial restraint which may be lawful, is founded upon that basis only; that that distinction and classification must first be determined and made; and that the question of the reasonableness, and hence lawfulness, of a partial restraint does not rise, and can not rise, until after a finding that the public interests are not being injuriously affected.

The respondent's contention is that the scheme of the petitioner for the control of the subsequent trade in its goods, and the system of contracts by which it is attempting to keep it, is unlawful because it is a general restraint of trade.

It has established and is maintaining, and seeks the aid of the court in the enforcement and carrying out of, a complete and entire control, *i. e.*, a general restraint, of all the trade in a separate and distinct article of general trade and commerce.

The articles which the petitioner manufactures, the subsequent trade in which it is attempting to control, are separate and distinct articles of trade. This clearly follows from the fact that they are manufactured under secret processes and formulas which the petitioner alone has the power to use. There may be other medicinal preparations used for the same purpose, and there are, of course, other classes of medicines, but petitioner's remedies are, from their very nature, all of the articles of their nature in commerce. They are things which no other manufacturer can make. *Therefore the system, estab-*

lished and maintained by the petitioner, controls the entire trade in the articles manufactured by it and is necessarily a general restraint of the trade in the articles in question.

The averments of the bill show clearly that this is so. The allegation is that the purpose and object of the system of contracts, etc., is to control the entire trade in the articles manufactured; that wholesalers and retailers complying therewith can obtain the goods, but that it is not possible for any one in the world to buy or handle these articles except under the system of control. This system fixes the prices from the manufacturer to the consumers, so as to prevent all competition in the entire trade therein.

The bill also clearly avers that the articles in question have been made the subject of general trade and commerce. It would not be possible to conceive of a stronger averment of an entire control and general restraint of an article of trade. Such general restraint is unlawful.

In no case has a complete control of the entire trade in an unpatented article of general commerce been held legal. In practically every case in which control of part of the trade in an unpatented article of general commerce has been held legal, it has been so held on the express ground that the part of the trade controlled was not sufficient to affect the public interests injuriously, and that therefore, upon the determination that such control was reasonably necessary for the protection of one of the interested parties, the contracts enforcing such control were upheld.

Excluding from this discussion those cases sustaining restraints over property and trade in which the public has no interest, such as contracts ancillary to the sale of secrets, those remaining are cases wherein the right of

the vendor of property to impose restrictions on his vendees for the purpose of protecting the vendor's interest in property or business which he retains was upheld because the restraint did not injuriously affect public interests and was reasonably necessary for the protection of the vendor. Other cases hold that even where the restraint imposed was reasonably necessary, still because the restraint injuriously affected the public interests, it was, notwithstanding its reasonableness, unlawful.

Thus in the case

Oliver v. *Gilmore*, 52 Fed., 562,

a stipulation that a factory sold should not be operated at all was held to be illegal, it not being a mere substitution of some one else to carry on a trade, and the interests of the public being therefore injuriously affected. In the cases

Dolph v. *Troy*, 28 Fed., 523,
In re Greene, 52 Fed., 104,

the courts held the contracts not unlawful because the arrangement did not affect the right of others to engage in the same business and hence affected in no way the general trade in the articles. In

U. S. v. *Nelson*, 52 Fed., 646,
Dueber Watch Co. v. *Howard*, 55 Fed., 851,
Olmstead v. *Distilling Co.*, 77 Fed., 265,
Phillips v. *Iola Cement Co.*, 125 Fed., 593,
Knapp v. *Jarvis*, 135 Fed., 1008,

the contracts in question were held lawful because they did not affect the trade in the entire commodity. To this class of cases also belong the decisions in the cases of

Grogan v. *Chaffee*, 156 Cal., 611,
Walsh v. *Dwight*, 40 App. Div., 513,
and
Garst v. *Harris*, 177 Mass., 72,
Garst v. *Charles*, 187 Mass., 144,

it being expressly stated in the former cases, and it being the only proper construction to be put upon the decisions in the latter, that the contracts in question were upheld solely because they affected a part only of the entire trade in the articles in question.

Another class of cases relied on by the petitioner, including

Whitwell v. *Continental Tobacco Co.*, 125 Fed., 454,

Commonwealth v. *Strauss*, 188 Mass., 229,

involved nothing more than the right of a manufacturer to sell his goods at a lower price to those who agreed to buy only from him. In neither of these cases did the vendor control the entire output of the articles sold, nor was the entire trade in such articles affected. In the second case the court stated that the arrangement would have been clearly illegal if the purchasers had been obliged to agree not to handle other goods as a condition of being able to purchase of the vendor. The only differences between the suppositious facts stated by the court in the Strauss case and the case at bar are, that in the former the exclusion related to the goods; here it relates to the persons who handle the goods, and to the price of resale, for here the contract absolutely excludes all persons who will not submit to the general control imposed by the vendor.

A necessary inference from the reasoning of the cases in which the contracts were upheld is, that if they had imposed restraints affecting the entire trade in the articles in question, or so much thereof as to injure the public interests, they would have been held invalid. These cases have been considered at some length because they have been relied upon by the petitioner to sustain his claim. Their analyses show, while the express decisions did up-

hold the contracts in the particular cases, that the reasoning of the courts is directly against the petitioner's contention.

We are not, however, dependent upon inferential authority, the affirmative of the proposition having been expressly decided times without number. Thus in

U. S. v. *Jellico, etc., Co.*, 46 Fed., 432,
U. S. v. *Coal Dealers Ass'n of Cal.*, 85 Fed., 252,
Chesapeake & Ohio Fuel Co. v. *U. S.*, 115 Fed., 610,
U. S. v. *Addyston*, 85 Fed., 271, aff. 175 U. S., 211,

the contracts in question were held illegal as constituting or tending to create a monopoly, because their effect was to control and regulate all or such a large proportion of the entire trade in an article of commerce as to affect injuriously the public interests. In the case last cited, the reasoning of the Circuit Court of Appeals on this point was affirmed by the Supreme Court, the modification of the decree being upon a different ground.

To the same effect are the following cases:

Cravens v. *Carter*, 92 Fed., 479.
Montague v. *Lowry*, 115 Fed., 27.
Gibbs v. *McNeeley*, 118 Fed., 120.
Swift & Co. v. *U. S.*, 196 U. S., 375.
Getz v. *Federal Salt Co.*, 147 Cal., 115.
Hunt v. *Riverside Club*, 12 Detroit Leg., N. 264.
Owen v. *Bryan*, 77 N. E. Rep., 302.
Clancy v. *Onondago, etc., Co.*, 62 Barb., 395.
Dewitt Wire Cloth Co. v. *N. J. Wire Cloth Co.*, 16 Daly, 529.
People v. *Duke*, 19 Misc. (N. Y.), 292.
Tuscaloosa Ice Co v. *Williams*, 127 Ala., 110.

In

Finch v. *Granite Co.*, 187 Mo., 244, and
Charleston, etc., Co. v. *Kanawha, etc., Co.*, 50 S. C. Rep., 876,

the rule is announced that any restraint affecting the public interest adversely is unlawful, however much it may benefit or protect the parties, or however reasonable from their standpoint.

In

Lowry v. *Tile, Mantel & Grate Ass'n*, 106 Fed., 38, and

Ellis v. *Inman*, 131 Fed., 182,

it was pointed out as a further ground of illegality, that the effect of the contracts was to prevent any one from dealing in the articles, except in accordance with the rules and schemes sought to be enforced by such system of contracts or general agreements.

The decision of this court in

Montague v. *Lowry*, 193 U. S., 38,

expressly pointed out that it is immaterial that the trade in the articles is not a large one, nor one in which the public has much general interest, if the effect is to control the general trade in the entire article. In

Cummings v. *Union Blue Stone Co.*, 164 N. Y., 401, at p. 404,

the court indicates the distinction between contracts unlawful as in general restraint of trade, and the right of persons to impose conditions upon each other where the situations do not affect the interests of the general public. Enforcement of the contract was refused on the ground that it tended to create a monopoly in a sufficiently large proportion of the trade in blue stone to make it illegal as in general restraint of trade. In addition to the cases cited at page 405 of this case, to which we beg leave to refer without citation, are to the same effect:

Cohen v. *Berlin & Jones Envelope Co.*, 166 N. Y., 292.

Salt Co. v. *Guthrie*, 35 Ohio State, 666.

Distilling Co. v. *Moloney,* 156 Ill., 448.
State v. *Standard Oil Co.,* 49 Ohio State, 137.
People v. *North River Sugar Co.,* 54 Hun., 345, aff. in 123 N. Y., 587.
Bishop v. *Preservers Co.,* 157 Ill., 284.
Harding v. *Glucose Co.,* 182 Ill., 551.
Chicago, etc., Coal Co. v. *People,* 214 Ill., 421.
Texas Standard Oil Co. v. *Adone,* 83 Texas, 650.
State v. *Armour Co.,* 173 Mo., 356.
Santa Clara v. *Hayes,* 76 Cal., 287.
Pacific Factor Co. v. *Adler,* 90 Cal., 110.

In

Cleland v. *Anderson,* 66 Neb., 252,

a scheme, practically identical in effect with that in issue in this case, was held unlawful, and in

Brown v. *Jacobs,* 115 Ga., 429,

substantially identical systems of contracts, with reference to wholesale and retail trade in drugs, were held to be unlawful at common law, as an attempt to create a monopoly.

In the above review of the cases no reference is made to those relating to railroad combinations and pools, conspiracies and combinations to injure a business, strike cases, etc., in which, although substantially identical principles have been laid down, the decisions do not directly affect the situation of the case at bar.

The petitioner seeks support in the opinion in the case of

N. Y. Bank Note Co. v. *Hamilton Bank Note Co.,* 180 N. Y., 280.

Here the legality of a contract for the sale of "Kidder Printing Presses," with attachments enabling them to do a certain class of work, was at issue. Parts of the press were patented; the attachments were not patented. The

court upheld the contract, partly upon the patent rights and the right of monopoly thereby conferred, and partially because the machines in question were the result of the joint invention of both parties to the contract, and hence a contract restraining their use as between themselves was lawful.

We make no comment upon

Hopkins v. *U. S.*, 171 U. S., 578, and
Anderson v. *U. S.*, 191 U. S., 604,

because of the familiarity of this court with those cases, which have been sufficiently distinguished in the subsequent opinion in

Addyston v. *U. S.*, 175 U. S., 211.

We believe that the authorities above discussed clearly determine the illegality, at common law, of what the petitioner is attempting to enforce. Whether or not the restrictions imposed are, from its standpoint, reasonably necessary for its protection and for its benefit, they constitute a general restraint of trade and therefore, under the overwhelming weight of the authorities heretofore cited, are clearly unlawful.

C. The Restraint Which the Petitioner is Attempting to Maintain is, Even if Partial, Unreasonable and Therefore Unlawful.

Counsel for the respondent do not intend to concede the possibility of the restraint in this case being other than general. But in view of possible differences of opinion upon the reasonableness of the restraint, we deem it advisable to discuss this question as if such possibility existed. In

John D. Park & Sons Co. v. *Hartman*, 153 Fed., 24, at 41,

the Circuit Court of Appeals (overruling the Circuit Court) held this restraint illegal whether partial or general.

The learned District Judge (whose conclusion was overruled by this decision) apparently adopted a classification wherein all restraints of trade fell into two classes, contracts made by individuals, and restraints imposed by combinations. The restraints imposed by the former are lawful, if reasonable; apparently, those imposed by the latter are unlawful, without regard to their reasonableness. Having placed the case at bar in the former class, he decided that the restraints imposed were reasonable and therefore lawful.

That this classification is not supported by principle or authority would appear from the consideration of the decisions in which the nature of criminal conspiracy was considered. In

U. S. v. *Watson*, 17 Fed., 145,
U. S. v. *Britton*, 108 U. S., 199, at 207,
Pettibone v. *U. S.*, 148 U. S., 197,

the rule was clearly stated that the unlawfulness of the conspiracy did not rest in the fact of the conspiracy but upon the lawfulness of the means used or the end to be accomplished.

The apparent exception to this rule appears in those cases wherein the multiplied effectiveness of the combination enables it to injure the public where an individual might have been powerless.

Among such cases are

Farmer's Loan & Trust Co. v. *Northern Pacific Railway Company*, 60 Fed., 803.
Bobbs-Merrill Company v. *Straus*, 139 Fed., 155.

It will be seen that here it is not the fact of conspiracy

or combination that renders the act unlawful, but the act becomes in itself unlawful because of its effect upon public interests. This is the application to combinations and conspiracies of the accepted general doctrines of unlawfulness as in restraint of trade, to-wit: that whatever restraint affects the public interests injuriously, whether imposed by an individual or by a combination, is unlawful. This is a necessary implication from the decision of this court in the Northern Securities case and in the later cases in which this question was considered.

Under the views above advanced, it would make no difference whether the restraint imposed by the petitioner is the act of an individual or of a combination. But if we waive this proposition, it is equally clear that the restraint is the act of a combination. There is here a combination between all persons engaged in handling an entire article of trade. The Circuit Court of Appeals adopted its earlier opinion in *Hartman* v. *Park* upon this point (*Record*, pp. 32-33):

> "The general purpose of each separate contract is the regulation of the prices and sales of the line of preparations made by complainant. A common purpose unites each covenantee to every other and the 'system' is to be construed as 'one piece,' in which the complainant and every assenting dealer, whether wholesaler or retailer, is a party, and the agreement of each such covenantee to sell only at the prices dictated by the manufacturer constitutes one general scheme. The question here is, therefore, one of a totally different character from that which would arise if the question was the more simple one presented by a breach of a single covenantee. In *Continental Wall Paper Co.* v. *Voight & Sons Co.*, where was involved a combination in restraint of trade and where each wholesaler and

retailer in the business had executed separate but identical contracts with the corporation representing the combined manufacturers, we held that each separate covenantee was a party to the general scheme for enhancing prices. This was rested upon the holding that the several agreements constitute one whole. See, also, observations of Judge Taft in *United States* v. *Addyston Pipe Co.*, 85 F. R., 235, and of Justice Peckham in *Montague* v. *Lowry*, 193 U. S., 38, 45-6.

"The plain effect of the 'system of contracts,' the proposed relation of each to every other being confessed by the very description of the method of carrying on business stated in the bill, is, first: to destroy all competition between jobbers or wholesale dealers in selling complainant's preparations. Complainant restrains himself by agreeing to sell at only one price and to only such persons as will sign one of the system of contracts. The contracting wholesalers or jobbers covenant that they will sell to no one who does not come with complainant's license to buy and that they will not sell below a minimum price dictated by complainant. Next, all competition between retailers is destroyed, for each such retailer can obtain his supply only by signing one of the uniform contracts prepared for retailers, whereby he covenants not to sell to anyone who proposes to sell again unless the buyer is authorized in writing by the complainant and not to sell at less than a standard price named in the agreement. Thus all room for competition between retailers, who supply the public, is made impossible. If these contracts leave any room at any point of the line for the usual play of competition, between the dealers in the product marketed by complainant, it is not discoverable. Thus a combination between the manufacturer, the wholesalers and the retailers

> to maintain prices and stifle competition has been brought about. It is true, that the complainant is not in a combination with other makers of 'Peruna.' There are no others. If there were, there would not be a complete or general restraint, for it might then happen that these others, not being bound by any covenants, could supply the public. If the supply to come from them was adequate for the public demand, the public might be in no wise affected."

If we adopt the classification suggested by the lower court, the petitioner's system is illegal because enforced by a combination. With this as the test, the reasonableness of the restraint is immaterial. But assuming (although an impossible assumption) that its legality is to be tested solely by its reasonableness, it is nevertheless illegal. The allegations of the bill set forth a demoralization of the trade of the wholesalers and retailers, petitioner's vendees and sub-vendees, by the cutting of prices by other wholesalers and retailers. There is no fact stated in the bill justifying the conclusion that this system of contracts is necessary for the protection of the petitioner's own business. There is no authority supporting the right of the petitioner to establish such a system of restraint for the benefit and protection of those engaged in the subsequent trade in its articles. The restrictive contracts with the retail dealers, an essential part of the system whose enforcement it is seeking, are not contracts restraining the trade in goods sold by the petitioner, but of goods sold to such retail dealers by persons other than the petitioner. It is difficult to understand a construction of the bill leading to the conclusion that such contracts enforce restraints imposed by the vendor for the reasonable protection of its retained business. As our conclusion that the restraint

which the petitioner is attempting to maintain is, even if partial, unreasonable, we quote the Court of Appeals in *John D. Park & Sons Company* v. *Hartman (supra)*:

> "Looking to the averments of the bill as a whole and to the scheme of business as disclosed by the contracts themselves, we can not escape the conclusion that the covenants restricting sales and resales have as their prime object the suppression of competition between those who buy to sell again. Any benefit to the retained business to result from them is manifestly but an incident of the main purpose, which *is to benefit his vendees and sub-vendees by breaking down their competition with each other.* Restraints which might be upheld if ancillary to some principal contract can not be enforced if, when unmasked, they appear to be the main purpose of the contract and not subordinate. The covenants in the contracts signed by the retailers are not even collateral to any sales by the complainant, but to sales made by the wholesalers. Although they run to the complainant, their prime purpose is neither the protection of the retained business of the complainant nor of the wholesaler, but only to prevent competition between retailers. Covenants protecting the seller of property against the competition of the buyer by its use against the business retained by the seller, which are upheld if not wider than necessary for that purpose, have been covenants where the main purpose has been to protect the seller himself against competition *directed against his retained business.* No instance has been called to our attention where the main purpose and principle, if not only result, is to protect buyers against the competition of each other. If such a principle shall find lodgment in the law it must be upon economic reasons which are in conflict with those which now pre-

vail. The single direct effect of the 'system of contracts' is to limit and restrain the right of each wholesaler and each retailer to transact business in the ordinary way. Each obtains a price enhanced by the 'system' over the 'cut rate' or 'cut price' method which had before prevailed and which it was the object of the new plan to abolish. It may be that sales went on as before; but at a higher price to the consumer than would otherwise have been paid. In *Addyston Pipe Co.* v. *United States*, 175 U. S., 211, 244, it was said:

"'We have no doubt that where the direct and immediate effect of a contract or combination among particular dealers in a commodity is to destroy competition between them and others, so that the parties to the contract or combination may obtain increased prices for themselves, such contract or combination amounts to a restraint of trade in the commodity, even though contracts to buy such commodity at the enhanced price are continually being made. Total suppression of the trade in the commodity is not necessary in order to render the combination one in restraint of trade. It is the effect of the combination in limiting and restraining the right of each of the members to transact business in the ordinary way, as well as its effect upon the volume or extent of the dealing in the commodity, that is regarded.'" (153 Fed., 24, at 45.)

D. The Control Which the Petitioner is Attempting to Maintain Over the Entire Trade, in the Goods Manufactured by it, and the System of Contracts by Which it is Attempting to Carry Out that Purpose, are Illegal Under the Provisions of the Sherman Anti-Trust Act.

We have considered above the legality of what the petitioner is attempting to do with reference solely to com-

mon law principles, and have shown, we think conclusively, that it is attempting to maintain a monopoly which is unlawful at common law.

We desire moreover to apply to the consideration of this case and to the determination of the legality of the petitioner's system of contracts, the provisions of the Sherman Anti-Trust Act and the decisions of the Federal Courts thereunder. This act is applicable only if the contracts affect interstate commerce. Of this fact there can be no question in this case. The petitioner alleges that its goods are sold by it to the wholesale and jobbing druggists throughout nearly all of the states of the United States. This is clearly interstate commerce.

Addyston v. *United States*, 175 U. S., 211.
Montague v. *Lowry*, 193 U. S., 38.
Swift & Co. v. *U. S.*, 196 U. S., 375.

The effect of the Sherman Anti-Trust Act is to make illegal any contract or agreement in restraint of trade, whether reasonable or not.

U. S. v. *Trans-Missouri Freight Association*, 166 U. S., 290.

A discussion or analysis of the opinions of the Justices comprising the Supreme Court is unnecessary both on account of the familiarity of this court therewith, and because the principal has become crystalized into the definite construction that the Sherman Act prohibits all contracts essentially in restraint of trade.

Lowe v. *Lawlor*, 208 U. S., 274, at p. 293.

The provisions of Sections 1 and 2 of the Sherman Act of July 2d, 1890, are clear and specific, and remove any possibility of doubt, that under the provisions of that act, that which the petitioner is doing in this case is un-

lawful. The act enumerates both combinations in restraint of trade and individual contracts and acts to the same effect, and it declares both alike unlawful; and especially says that the acts of every person attempting to establish a monopoly is unlawful. If, therefore, there can be any question that that which the petitioner is doing, as shown by the bill in this case, is unlawful at common law, any doubt in this respect, or as to its illegality, is entirely removed by the provisions of the Sherman Anti-Trust Act.

We may therefore conclude this branch of the argument by again calling attention to the situation shown by the bill in this case. The petitioner by virtue of the fact that it has kept its process and formula secret, has preserved to itself the sole right to manufacture. It so avers, and it is the fact that it is the sole person manufacturing articles of very extensive trade throughout the entire United States and in foreign countries. The result is that there are now no other persons manufacturing, or, possibly, who have the power to manufacture these articles. That system of contracts, by which it attempts to preserve a monopoly over the output of its factory, and to prevent competition in the trade in, and to fix the prices of, the goods manufactured by it, is necessarily a system of contracts and agreements in general restraint of trade, and unlawful both at common law and by statute.

Third. Whether upon the Allegations of the Bill, the Petitioner is Entitled to Relief Against the Respondent.

A. THE NECESSARY EFFECT OF GRANTING THE RELIEF WOULD BE TO CREATE BY JUDICIAL SANCTION A RIGHT WHICH CAN ONLY ARISE FROM STATUTE.

As we have before pointed out, if petitioner be granted the relief it asks for, the effect would be to grant it by judicial sanction an exclusive right of monopoly, which, it is very clear, it does not have. The effect would be to grant it rights which can only be acquired under the patent and copyright laws of the United States, and even more extended rights than could be acquired under those acts.

It would be granting to it a right of monopoly for an unlimited period of time, and that without it making that concession of a subsequent free use of its invention or discovery by the public, which is the condition upon which a patent is granted. This would be equivalent to establishing by judicial decree a right which manifestly can have its rise, if at all, only in legislative action. This fact, that the effect of such a decree would be legislative and not judicial in character, and would create a new right which does not now exist, should be in itself sufficient to lead the court to refuse any relief.

B. The Relief Should Not be Granted Because Its Effect Would be to Aid the Petitioner in Carrying Out of that Which is Unlawful.

It has, we think, clearly been shown that the control which the petitioner is attempting to exercise over the subsequent trade in its goods, and the contracts and agreements which it has taken for that purpose, are illegal and unlawful both at common law and under the provisions of the Federal statute; and that that which the petitioner asks the court to enforce, and for the protection of which it asks the aid of a court of equity, is illegal and unlawful.

The rule is well established, that under such circumstances, a court of equity will uniformly refuse to grant

any relief. Where the necessary effect of a decree would be to aid a party in carrying out that which is illegal, a court of equity will refuse any relief. This principle is very clearly recognized in the case of

Chicago Ry. Co. v. *Wabash R. Co.*, 61 Fed., 993, at 998-9,

where the court said:

> "Courts will not lend their aid to enforce the performance of a contract which is contrary to public policy or the law of the land, but will leave the parties in the plight their own illegal action has placed them."

This decision was based on the following cases:

Central Transp. Co. v. *Pullman Palace Car Co.*, 139 U. S., 24; 11 Sup. Ct., 478.
Gibbs v. *Gas Co.*, 130 U. S., 396; 9 Sup. Ct., 553.
Texas & P. Ry. Co. v. *Southern Pac. Ry. Co.*, 41 La. Ann., 970; 6 South., 888.
Morris Run Coal Co. v. *Barclay Coal Co.*, 68 Pa. St., 173.
Hooker v. *Vandewater*, 4 Denio, 349.

See, also,

John D. Park & Sons Co. v. *Hartman*, 153 Fed., 24.
Cummings v. *Union Blue Stone Co.*, 164 N. Y., 401.
Emery v. *Ohio Candle Co.*, 47 Ohio St., 320.

See also the general rule, in this respect, clearly set forth in the text books on this subject.

2 High on Injunctions, 3d Ed., Section 1106.
1 Pomeroy Equity Jurisprudence, Section 402 *et seq.*

Upon both of the grounds just considered it is, we think, clear that the petitioner is not entitled to any relief in a court of equity.

C. The Bill Does Not Set Forth Facts Entitling the Petitioner to Relief Against the Respondent.

In the above discussion of this case, which we have gone into at such length because of the general public importance of the questions and distinctions involved, we have considered the case without reference to any question of the right of the petitioner to relief against the respondent in this particular case.

The respondent in this case has never signed any contract binding itself to comply in any way with the petitioner's scheme. That fact is expressly alleged. The relief is asked against the respondent on two grounds. First: That the respondent knew the methods under which the trade in petitioner's goods is carried on and hence had, and has, no right to acquire the same. Second: That the respondent, by virtue of a conspiracy with various other persons to prevent the petitioner from carrying out the system of contracts set forth, has been, and is, inducing persons who have contracts with the petitioner to violate them by selling the goods to the respondent.

It is manifest, we think, that the allegations of the bill in this respect are insufficient to warrant any relief against the respondent, even conceding that the petitioner has the exclusive monopolistic right which it contends for and that its system of contracts and agreements is not illegal.

In the first place, it is manifest that the mere allegation of knowledge on the part of the respondent of the petitioner's method of business, is not sufficient to warrant the relief restraining it from purchasing the goods. This proposition has been clearly laid down by the authorities, among others:

Appollinaris Co. v. *Scherer,* 27 Fed., 18, at 21.
Sperry v. *Hertzberg,* 60 Atl., 368, (Court of Chan. New Jersey, March 4, 1905).
Taddy v. *Sterious* (1904), 1 Chan., 254.
McGruther v. *Pitcher* (1904), 2 Chan., 306.
Garst v. *Hall,* 179 Mass., 588.

In the latter case, in a situation somewhat similar to that here, except that, as we have pointed out above, a general and complete restraint of trade did not appear, upon a suit being brought to enjoin a third person from acquiring goods from persons who had signed contracts, the court held that mere knowledge, on his part, of such method of doing business was not sufficient to warrant the relief.

In all of these cases the rule is clearly laid down that to warrant the relief there must be an inducement by unlawful and fraudulent means. This is, moreover, the clear basis of the decision in all of the cases in which injunctive relief, restraining third parties from inducing others to break contracts, has been granted. It has been held in all such cases that the mere inducement is not sufficient, it must be an unlawful inducement, or an inducement by misrepresentation and fraudulent and wrongful means. That this is clearly the rule see, among others, the following cases:

National Phonograph Co. v. *Edison-Bell Co.,* L. R. (1908) 1 Chan. Div., 335, at pp. 362-371.
Benton v. *Pratt,* 2 Wend., 385.
Rice v. *Manley,* 66 N. Y., 82.
Angle v. *Chicago, etc., Ry. Co.,* 151 U. S., 1.

In the last case the rule, in this respect, clearly appears from the cases cited by the court at pages 13 *et seq.*

See, also, the case of

Garst v. *Hall,* 179 Mass., 588, *supra,*

where the rule is expressly laid down that, in the absence of a contract between the parties, the relief can be granted only in case the defendant fraudulently induced and procured a breach of contract.

This wrongful and fraudulent inducement, therefore, being the gist of the cause of action, the facts constituting the cause of action in this respect must be averred. The mere averment that the inducement was fraudulent and wrongful, or brought about by misrepresentation or unlawful means is not sufficient in this respect. Such allegations are merely conclusions of law and do not make a cause of action. In the case of *Garst* v. *Hall, supra,* the court said that the use of the word "fraudulent" in characterizing the acts amounted to no averment of fact. The rule that such averments are mere conclusions of law, is moreover, too well established to need citation. The general rule is clearly laid down, that where an action is based upon fraud, misrepresentation, inducement by unlawful means, etc., the facts constituting such fraud, wrongful inducement and unlawful means, must be averred; and it is these facts which constitute the cause of action.

The same is true as to the charge of conspiracy. See in this respect the following cases:

Setzar v. *Wilson,* 4 Ired. (N. C.), 501,
McHenry v. *Hazard,* 45 Barb., 657,
Hanson v. *Langan,* 30 N. Y. St. Rep., 828,

where the court said:

> "A general allegation of fraud without setting out the facts showing the existence of the fraud is bad. The facts upon which the charge is founded must be averred with sufficient particularity to warrant the conclusion asserted by the pleader."

To the same effect are the cases of

Butler v. *Viele,* 44 Barb., 166.
Reed v. *Guano Co.,* 47 Hun., 410.
Bank v. *Rochester,* 41 Barb., 341.
Hilson v. *Libby,* 44 N. Y. Superior Ct., 12.

Again it was said by the court in the case of *Benedict* v. *Dake,* 6 How. Pr., 352, at 353:

> "The plaintiffs state what the representations were. * * * Nothing short of this would have constituted a sufficient complaint for such a cause of action. These are the facts which constitute the cause of action, and not the evidence, as the defendant's counsel seem to suppose. The evidence to establish these facts will be quite a different thing. To allege in general terms that the defendant had obtained goods by fraudulent representations would no more constitute a sufficient pleading than it would to allege that the defendant had slandered the plaintiff without specifying the words used."

See, also,

Davenport v. *Taussig,* 31 Hun., 563.

The same rule has been clearly laid down in the Federal Courts:

Hazard v. *Griswold,* 21 Fed., 178,
Mobile Savings Bank v. *Board of Supervisors,* 22 Fed., 580,

where it is distinctly held that the mere allegation of fraud is insufficient, and that the facts constituting fraud, inducement or misrepresentation must be set out.

The allegations of the bill in this respect are, therefore, mere conclusions of law, and it does not present either the facts to which the respondent has a right to answer, or any facts from which the court can find that there has

been any such wrongful inducement, misrepresentation or use of unlawful means by the respondent as to warrant the granting of any relief against it.

For the various reasons, therefore, discussed above, it is, we think, clear that the respondent's general demurrer to the entire bill was properly sustained.

Fourth. Whether the Petitioner has any Cause of Complaint because the Respondent Defaces and Mutilates the Labels or Printed Matter upon the Packages which it Purchases and Owns.

We believe it is so clear that the general demurrer to the entire bill must be sustained, that we will devote but a few words to the consideration of this special ground of demurrer.

It is manifest that the allegation of the bill, in which the respondent is charged with mutilating the labels and printed matter upon the packages containing the petitioner's preparations, must be considered under two different aspects; on the one hand, with reference to their connection with the main relief asked, and on the other as furnishing ground for separate relief.

We think it is apparent, that, in the first aspect, these allegations furnish no ground for the main relief asked, and are no part of that cause of action. If the petitioner has the rights which it contends for, and its scheme can be said to be lawful, then it might be that it would be entitled, upon proper allegations against the respondent, to restrain the respondent from buying the goods at all. If it should obtain this relief, we submit that restraining the respondent from buying, acquiring or dealing in the goods at all, and at the same time, and in the same decree, restraining it from altering or defacing the labels upon the bottles which it does purchase, is manifestly absurd.

If, therefore, the petitioner could make out a cause of action entitling it to restrain the respondent from purchasing the goods at all, the special relief asked for, as to the destruction of the labels, etc., would be wholly inconsistent with, and no proper part of that relief, and in this respect the special demurrer must be clearly sustained.

On the other hand, if the petitioner has not the right to restrain the respondent from acquiring the goods, and if it has the right to purchase and deal in them, it is, we think, clear that these allegations, with reference to the mutilation of labels, etc., furnish no independent ground of relief; the goods, being then rightfully purchased by the respondent would become its absolute property, which it would have a right to destroy or deal with as it saw fit.

It will be observed that the allegation here is not one of an alteration of the labels so as to indicate that the goods were manufactured by any one else, or to in any way interfere with the full extent of the right which the petitioner has under his trade-marks.

The nature and extent of this right we have fully discussed above, and need not here repeat.

All that the bill charges the respondent with doing, in this respect, is the removal of certain serial numbers, by which the goods are identified and can be traced, as a means of carrying out the general scheme of the petitioner for controlling the trade therein. If this scheme is unlawful and the respondent's rights, therefore, to acquire and deal in the goods, sustained, it is certainly manifest that the alteration of the labels, no longer having any object, would no longer continue.

Moreover, the alteration and mutilation of the labels and printed matter with which the respondent is charged in the bill, are not of a character entitling the petitioner

to restrain them. All the cases in which the mutilation of trade-marks and labels have been considered have been cases where the object of the alteration was to deceive the public in the essential fact as to which alone the trade-mark or label gives any protection, to-wit, as to the origin or maker of the goods. Not only are no allegations made in this case bringing it within these decisions, but the contrary clearly appears. The respondent is not attempting in any way to represent the goods as being other than those of the petitioner, nor is it doing any act in an attempt to injure, or calculated to injure, the petitioner in its rights, unless it be conceded that the petitioner has the right to carry out the scheme of monopoly set forth in the bill.

We believe no case can be found sustaining the proposition that merely such a mutilation of labels and trade-marks as is here charged is unlawful on the part of the purchaser of the goods. On the contrary it would seem to be clearly the right of the respondent, if it has a lawful right to purchase the goods, to destroy them if it desires, or to resell them in any condition it desires. The injury, if any, from such acts as are alleged in this respect, would be to the respondent and not to the petitioner. If the allegations of the bill are true, that the public is desirous of having the goods with the printed matter intact, then the result of offering them for sale in a different condition would be to decrease the possibility of the respondent reselling them.

In fact, the sole ground, taking the bill together, upon which the petitioner alleges any injury to itself by the respondent, by this mutilation or otherwise, is the interference with its general plan and scheme of monopoly of trade in its goods. If that scheme is unlawful, and the respondent has a right to purchase the goods, that would

necessarily put an end to the whole matter. If not, the relief asked, restraining the respondent from purchasing or dealing in the goods, is complete in itself, and the partial relief asked in that connection, in the parts of the bill especially demurred to, wholly inconsistent therewith.

It is submitted that the special demurrer should be sustained.

CONCLUSION.

It is respectfully submitted that the petitioner's system is illegal and unlawful as in restraint of trade, both at common law and under the statute, and that the action of the courts below in sustaining the demurrers and in dismissing appellant's bill, should be sustained.

Respectfully submitted,

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